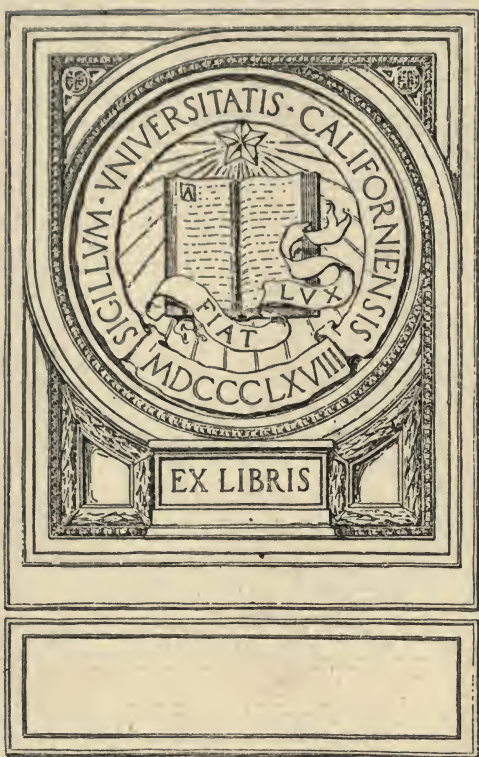


THE
STOCK EXCHANGE

INGALL AND WITHERS

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THE STOCK EXCHANGE

BY

GODEFROI D. INGALL

AND

GEORGE WITHERS



LONDON
EDWARD ARNOLD

1904

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P R E F A C E



ALTHOUGH many books have been written with the intention of initiating the outside public into the mysteries of the Stock Exchange, no book exists, so far as we are aware, which traces the Stock Exchange bargain from the client to the broker, and through the broker to the jobber, up to the final adjustment of the transaction between the original buyer or seller and the ultimate deliverer or purchaser at the Stock Exchange Settlement. To enable a lad at the outset of his career to understand fully the routine of the most practical method of keeping a stockbroker's or a stockjobber's books, illustrations are given of every type of book which is employed in the office of a member of the Stock Exchange. Then the manner of dealing and the custom of markets, together with an explanation of all the legitimate finesse which a smart broker may and should employ on his client's

behalf, are given in a fashion which, it is hoped, will render such intricate subjects clear to those who are possessed of little or no technical knowledge of Stock Exchange detail. Beyond this, there is an explanation of the sciences of investment and speculation and of the peculiar pitfalls which beset the path of the speculative investor.

Although primarily written for the instruction of the embryo stockbroker, there is much in this book which, we trust, will be found useful by the general public. For the aim of the authors has been to expound what they believe to be the true theory of stockbroking—namely, that the broker should learn to regard all transactions on behalf of the public from the standpoint of the public. With this object in view, the mistakes which are commonly made by the speculator and investor are treated of at some length. Moreover, we hope that this book will enable stockbrokers in the provinces, who have not had the advantage of serving an apprenticeship in Throgmorton Street, to understand more clearly the methods and customs of London markets and of their London Agents.

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THE STOCK EXCHANGE

CHAPTER I

WHAT THE STOCK EXCHANGE IS

5 Creation of Stock Exchanges due to the Necessity for ready Negotiability of Assets—Paper Securities under the Roman Empire—War Loans lead to recognition of Trading Guilds by the State—The New River Company—The Bank of England—The General Society—The South Sea Company—Establishment of the London Stock Exchange.

To many people, even in these days of enlightenment, a Stock Exchange appears to be little more than a sink of iniquity. As is invariably the case with all long-established institutions, certain scandals and irregularities have gradually grown up round the London Stock Exchange. These have excited so much attention in the Press, as finally to produce in the public mind an impression that, were such a feat within the sphere of practical politics, the abolition of the institution, instead of being an irreparable national financial disaster, would on the whole be a distinct advantage to the general

public. The beneficent influence exerted upon national prosperity by a free market in stocks and shares has been entirely overshadowed by recent financial scandals, the majority of which, it is only fair to state, have been due rather to the rapacity of the Company Promoter and the incapacity of the Company Director, than to any lowering of the tone of commercial morality among members of the Stock Exchange. At the same time, it is impossible to deny that the Committee of the London Stock Exchange appears latterly to have to some extent relaxed the Draconian severity of its code, and that the complicity of members, in thinly disguised partnership with non-members, in various acts of market-rigging and other flagrant crimes against the Rules, has been allowed to pass unchallenged by the very body of men who are annually elected to keep the atmosphere of the Exchange pure.

After making this reservation, however, the fact remains that a Stock Exchange does fulfil an exceedingly useful function, and that the commercial prosperity of every country is closely bound up in the work done on its Stock Exchange. A Stock Exchange primarily exists to promote the negotiability of various promises to pay made either by political bodies such as nationalities, states, or municipal corporations, or by corporate bodies such as Companies carrying on business under Charter, or by Limited Liability Companies incorporated under the Joint Stock Companies Acts. The necessity for a Stock Exchange is based upon the value which negotiability imparts to a paper promise to pay. That an article

is worth precisely what it will fetch. is the first law of Political Economy. And the value of the paper promise of a nation to repay at a certain date the principal sum of a loan it has contracted, together with interest thereon as it accrues, depends to a great extent upon the negotiability of that nation's bonds. Similarly, the value of the paper promise on the part of a Limited Liability Company to pay debenture interest and to distribute its profits, according to its Articles of Association, amongst its shareholders, varies in a very direct ratio with the negotiability of that Company's debentures and shares. Negotiability is the touchstone of all paper assets, and a Stock Exchange exists to promote negotiability.

In the early days of financial history, the only readily negotiable assets of the world consisted of gold, silver, and precious stones, and at a long interval after these, as far as negotiability was concerned, followed lands, cattle, and manufactured articles. By a curious historical irony, all the laws which were enacted by different nations to prevent Jews from owning land and engaging in various manufacturing arts, and the persecutions which the Hebrew nation suffered in all countries, of necessity compelled the Jew to keep his assets in as portable and as easily secreted a form as possible. In the bitter school of adversity, the important lesson of the value which all articles derive from negotiability was impressed upon the Jew for century after century. And a nation which was compelled to exist for generations as wanderers upon the face of the earth learnt to regard as assets only such possessions as were readily

portable and universally negotiable. In fact, the importance of negotiability was ground into the Jewish nation by the tyranny of the Christian, and it is the very intolerance with which the Jew was regarded which finally taught him that the foundation of all sound finance was the negotiability of assets. His grasp of this great truth has made the Jew what he undoubtedly is—the mainspring of the world's international banking business, and the leading influence on all Stock Exchanges. It was from the necessity of conferring the great desideratum of negotiability upon Paper Securities that the idea of a Stock Exchange first originated. The origin of all Stock Exchanges is to be directly traced to the creation of paper or parchment bonds.

The first bonds of which mention is made in history were those issued by the Roman Empire to the tax-gatherers, who, in exchange for the contribution of a capital sum to the national war-chest, were entitled to collect taxes from the several districts over which Rome held sway. Thus we find that the first loan raised by a State was a war loan, and, ever since, War has been the great factor in the creation of paper securities. As civilisation grew, Industry began to compete with War in the Money Market; but the first recognition which Industry obtained from the State was directly due to the influence of War. The warrior's necessity was the trader's opportunity, and all the old guilds of merchants, with their almost despotic rights over different branches of commerce, received their trading charters in exchange for lump sums of money advanced to

the State for the purpose of warfare. It would be beyond the scope of this work to do more than merely touch upon the existence of the guilds of traders and merchant adventurers which were merely stages in the evolution of the Joint Stock Company, as it exists at present. The old trading guild was, indeed, much more analogous to the Trades Union of the present day than to the Limited Liability Company, and the main object of its existence was to secure for its members either the sole monopoly of various trading rights in specific articles, or else the exclusive privilege of trading with a specified portion of the globe. Members of the same guild, however, habitually undersold one another, and although these guilds contained the germ of Joint Stock trading, they could in no sense be described as Joint Stock Companies.

It was not until the time of the Stuarts that the idea of Joint Stock enterprise began to take definite shape. The great undertaking still known as the New River Company was conceived and carried out in the reign of James I. It is interesting to note that the New River Company, although it marked an immense stride forward in the direction of development, still contained all the old abuses which had characterised the Trading Guilds. The same idea of protecting themselves from competition by means of a trading monopoly was evident on the part of the Adventurers who risked their money in its construction; and the same determination was displayed on the part of the Crown to bleed the enterprise at its birth in exchange for the monopoly the corporation required.

The King's shares in the New River Company still survive, and serve to remind us of the oppressive manner in which the Crown in those days asserted its right to plunder commercial enterprise. That the land concessions granted to the Company by the Crown have since so enormously increased in value that, by the whirligig of time, it almost might appear that the New River Company's Adventurers drove an excellent bargain, is quite beside the matter. The subsequent appreciation of land values in London and its suburbs was equally unforeseen by both parties in this partnership, and at the time the New River was built the extortion of the Crown was not a little instrumental in ruining Sir Hugh Middleton, who initiated this great work. It must, however, be admitted that without the pecuniary assistance of the Crown at a critical moment, the New River scheme would not have been carried out at all.

The Stuart period, with its debased coinage, with forced loans extorted from the goldsmiths, as the bankers of that period were styled, with the Court a seething mass of corruption and intrigue, witnessed no further expansion of Joint Stock enterprise. At the beginning of the reign of William and Mary, however, a new epoch dawned in matters commercial, and in 1694 the Government resolved to raise a million of money by founding a National Bank, a scheme which was originally conceived by William Paterson, a Scotchman. It was, however, only when the nation was impoverished by William's war with France that Paterson's project was carried into practice; so once again War was the direct cause of commercial develop-

ment. The scheme met with the greatest opposition from the vested interests in the City, but the capital required—£1,200,000—was subscribed in a few hours. The Bank of England originally was possessed of no trading monopoly. A trading monopoly constituting the Bank of England the sole Joint Stock Bank in the country was, however, passed in 1709, and was not repealed until 1834.

Another great impetus was given to Joint Stock enterprise in the year 1698, when a Bill was passed for the formation of the General Society, a public company to take over the monopoly of the old East India Company. Macaulay's description of the flotation of this concern shows how little the methods of those days differed from the methods of our own time. The historian states that "there was some anxiety as to the result of the subscription for the stock of the General Society. If that subscription failed, there would be a deficit; public credit would be shaken; and Montague (who was Chancellor of the Exchequer) would be regarded as a pretender who had owed his reputation to a mere run of good luck, and who had tempted chance once too often."

"But the event was such as even his sanguine spirit had scarcely ventured to anticipate. At one in the afternoon of the 14th of July the books were opened at the Hall of the Company of Mercers in Cheapside. An immense crowd was already collected in the street. As soon as the doors were flung wide, wealthy citizens, with their money in their hands, pressed in, pushing and elbowing each other. The guineas were paid down faster than the clerks could

count them. Before night six hundred thousand pounds had been subscribed. The next day the throng was as great. More than one capitalist put down his name for thirty thousand pounds. To the astonishment of those ill-boding politicians who were constantly repeating that the war, the debt, the taxes, the grants to Dutch courtiers had ruined the kingdom, the sum, which it had been doubted whether England would be able to raise in many weeks, was subscribed by London in a few hours. The applications from the provincial towns and rural districts came too late. The merchants of Bristol had intended to take three hundred thousand pounds of the stock, but had waited to learn how the subscription went on before they gave their final orders; and by the time that the mail had gone down to Bristol and returned, there was no more stock to be had."

This description of the attitude of the general public on the opening of the subscription list of a new venture might have been written to-day, with the exception only of the reference to the slower means of intercommunication between London and the provinces, and of the fact that actual gold, instead of cheques, was tendered by the applicants for stock. The attitude of the provincial centres waiting to see how the cat jumped in London before committing themselves definitely to an application, and the final rush of the premium-hunters to secure an allotment when once the overwhelming success of the issue was manifest, are repeated in London to this day on every public issue of any importance.

Not only was the reign of William III. responsible

for the creation of the Bank of England and the commencement of the custom of opening a Public Subscription List on the flotation of a Public Company, but also in this reign was laid the foundation of England's National Debt. For in 1695, to defray the cost of his war with France, William raised loans at what would now be considered the usurious rate of interest of eight per cent. These loans differed from previous borrowings by the English Crown, inasmuch as they were thrown open to public subscription instead of being raised, as heretofore, from goldsmiths or from the Trading Guilds. Although the rate of interest on these loans now appears excessive, it must be remembered that there were many political reasons which made the security of the National Debt a somewhat precarious one at that time; and it is also fair to state that money was then of far greater value in the open market than it is at present. At the time that the National Debt came into existence, the Jacobites were actively intriguing, not only on the Continent, but in the United Kingdom itself, for the restoration of the House of Stuart; while William's efforts to restore the debased coinage of the country to its proper value had produced such a shortage of cash, that the newly created Bank of England was absolutely compelled temporarily to suspend cash payment of its own notes, and gradually to redeem them as the Mint issued the fresh coinage. This suspension of the Bank, it is only fair to say, created no sort of financial panic; although bank-notes fell to a discount of twenty per cent. below their face value, such was the national confidence in

the integrity of William, that no alarm was aroused in the public mind. In addition to these troubles, William and Mary were without issue, and the uncertainty as to what might befall the nation on their decease was not calculated to enhance the stability of England's credit. Looking at the fact that William can in no sense have ever been termed a popular ruler, it certainly speaks volumes for the respect in which he was held that he was able to borrow money at what, in all the circumstances, must be considered the moderate rate of eight per cent.

Although the reign of William III. had given some impetus to Joint Stock undertakings, and had seen the foundation laid of the National Debt, it was not until the year 1719, in the reign of George I., that the public began to take any very real interest in public companies. This year saw the rise of the South Sea Company and the public flotation of many similarly rotten concerns. The original object of the South Sea Company was the conversion of the National Debt, which at this time only amounted to some £31,000,000. This national burden, however, small though it was, appears to have caused misgivings in the minds of certain amateur political economists, and the feeling was strong that it would be enormously to the national advantage if the nation's creditors could be induced to exchange their irredeemable annuities, which was the form in which the National Debt was first issued, for shares in the South Sea Company.

The conversion scheme which finally received the sanction of Parliament was that the South Sea Company, in consideration for various trading

monopolies, should issue South Sea stock in exchange for the existing Government annuities, which at this time only paid five per cent. interest, and should also pay the Government seven million sterling besides. The holders of Government stock were readily induced to part with their humdrum five per cent. security, and to receive in exchange South Sea stock, which was advertised to earn ten per cent. easily, with untold potentialities of larger returns in the future. The Bank of England actually entered into competition with the South Sea Company, and offered to redeem the National Debt on most onerous terms, rather than see its position as the State Bank imperilled by the interloping of the South Sea Company. Mercifully, however, for the commercial future of England, the management of the Bank had the prudence ultimately to retire from the competition, and to leave the South Sea Company in possession of a very bad bargain.

Then set in a stock-gambling mania such as had never before been witnessed in this country. In a few months the £100 shares in the South Sea Company rose to over £1000 apiece, and mushroom companies with all sorts of wild objects were foisted on to the investor at monstrous premiums. No project was too preposterous to find supporters, and a mob composed of every section of society of both sexes swarmed round the coffee-houses of Change Alley and the courts off Cornhill, only too anxious to secure shares of any sort at any premium, rather than be left out of this newly discovered and infallible method of money-making. The nation for months

suffered from a sort of financial delirium; and, curiously enough, it was the South Sea Company itself which was deliberately instrumental in knocking the bottom out of this wild "boom" and in engulfing its own shareholders, together with the shareholders in all rival gambles, in irretrievable ruin. The method employed by the South Sea Company to check the activity of its rivals would strike the latter-day company-wrecker as a trifle cumbrous. The Company obtained parliamentary powers to restrain various adventurers from the flotation of sundry bubble companies. Not only did the South Sea Company obtain the right of prosecution, but it forthwith proceeded to exercise it, thereby letting in such a flood of daylight upon the whole financial situation, that an indescribable panic took hold of the public mind. Shares which, a day or two before, had been regarded as a short cut to wealth, were burnt by their owners in the hopes of avoiding further liability. Change Alley and its surroundings were filled with a wild stampede of would-be sellers, and, naturally enough, the greatest bubble of all, the South Sea Company, burst in the general collapse.

Of the action of the Bank of England at this crisis perhaps the less said the better. The Governor and his colleagues lost their heads, and, instead of standing clear of the wreckage, as apparently they might easily have done, they considered that it would be to the Bank's advantage to attempt to prop up the South Sea Company. To this end the Bank undertook to place £3,500,000 worth of South Sea bonds at the price of £400 or a premium of 300 per cent.

This temporarily stayed the panic, but the failure of other large companies in a few days not unnaturally resulted in a run upon the Bank itself, and the directors, now thoroughly alarmed, refused to carry out their signed agreement with the South Sea Company. When threatened with legal action on the ground of breach of contract, the Bank of England, feeling confident that the directors of the South Sea Company had been guilty of such gross irregularities that they would shrink from any appearance in the Law Courts, determined to bluff the matter through and repudiate their contract entirely. Some excuse may be made for the Bank on the ground of national expediency, but this repudiation is the blackest incident in the history of that great institution. The panic was meantime intensified by this high-handed action, and it is impossible to say what might have been the result, had it not been for the decisive action of Sir Robert Walpole, who arranged that the Government should release the South Sea Company from its liability to pay seven millions for its Charter, and that the Bank of England and the East India Company should each assume nine millions of the South Sea Company's stock, and issue in its place stock of their own.

So ended England's first financial panic. But although the South Sea collapse was a most far-reaching disaster, yet the popularity of Joint Stock enterprise only passed under a temporary cloud, and, encouraged by the regularity with which the interest was paid on the National Debt, the public rapidly recovered confidence, and Joint Stock enterprise con-

tinued to grow, though the Stock Exchange as yet had no existence.¹ The shortness of the public memory in matters financial is indeed one of the most peculiar features of Joint Stock enterprise. And therein lie the great safety and the fruitful cause of disaster in Stock Exchange dealing. The marvellous elasticity with which markets will pull themselves together after the first stunning shock of a great financial disaster, gives great confidence to investors, while the extraordinary fashion in which the investing public will forget the glaring incapacity of a director or unscrupulous greed of a promoter, and in a few months' time be ready and willing to entrust their money to the very men who have proved themselves to be conspicuously unsuited to act as financial guides, is a constant source of ever-recurring disaster to the too-forgetful investor.

Undeterred, then, by the losses they had made, the public rapidly returned to the fascinating occupation of dealing in the stocks and shares of Joint Stock concerns, until the coffee-houses of Cornhill, and the confined quarters which the stockbrokers occupied in the Royal Exchange side by side with produce dealers, shipowners, and men of other callings, became too cramped for them, and early in the nineteenth century the London Stock Exchange was built, on the eastern side of Bartholomew Lane, where it at present

¹ As a matter of historical interest, I may mention that two of the strongest insurance companies at present in the kingdom—the Royal Exchange and the London Assurance Corporation—date from the "Bubble" year of 1720. This survival indicates that there were good things even among the rubbish which was then launched every day.

stands. To this new building only members of the Stock Exchange and their clerks were admitted, and so there gradually grew up the present exclusive, self-governed body which is called the Stock Exchange.

Of the gradual evolution of an organised Stock Exchange, as we now know it, from the desultory meeting of men interested in Joint Stock enterprise at certain coffee-houses, there is no historical record. But in the same manner and for precisely similar reasons as the social coffee-house of old gave way to the modern exclusive club, so did the coffee-houses of Change Alley ultimately develop into the Stock Exchange. Yet upon neither of these great changes do contemporary writers touch except by most casual references. That it was clearly the interest of the coffee-house proprietor to welcome all beneath his roof who could settle their score, while it was equally clearly to the interest of the primitive stock-broker only to deal with solvent men, is obvious. Therefore the proprietor's desire to admit all-comers without restriction no doubt gradually precipitated a crisis amongst those who only wished to rub shoulders with such as were financially desirable, as it did amongst those whose aim it was to mix only with the socially desirable. So that the friction between the interests of coffee-house keepers and the interests of those who chiefly frequented these haunts no doubt led to the creation of the Stock Exchange, of Lloyds, and of the modern club. And, curiously enough, at the present time history is repeating itself in the case of the Stock Exchange. For as in its infancy the coffee-house proprietor insisted upon his

right to admit all and sundry to his premises, so now the proprietors of the Stock Exchange, in their desire for dividends derived from the entrance fees and the annual subscriptions of new members, are anxious to admit members in increasing numbers; though the old members maintain that there are already too many of them to make an adequate living out of the amount of business which there is to divide amongst them all.

CHAPTER II

THE COMMITTEE AND THE RULES OF THE "HOUSE"

Constitution of the Committee—Rules regulating their Proceedings—The Committee's Action generally beneficial—Excessive Representation of Jobbers—A Bargain—Its Sanctity in the eyes of the Committee—Undue Laxity in the introduction of Prospectusless Issues—Increase of the "Outside" Broker—Various Reforms needed.

THE members of the Stock Exchange are divided officially into two classes — brokers and jobbers—who may not be partners. The brokers are in direct touch with the public, on whose behalf they carry out the various operations connected with Stock Exchange transactions. The jobbers or dealers have no relations with the public, and deal only with members of the Stock Exchange. The parts played by each of these two classes of members will be considered at length in subsequent chapters of this book.

In all Stock Exchange transactions the ruling of the Stock Exchange Committee is absolute as regards the conduct of a member of the "House." The Committee may perhaps best be described as exercising a benevolent despotism over the members. Their despotic power is, however, tempered by the fact that

each and all of the Committee-men only hold office for a year, and on the 25th of March in each year the whole Committee retire; they are all eligible for re-election, and as a matter of fact the new Committee is almost invariably composed of practically the same men who have just relinquished office. It is only when the Stock Exchange is stirred to its depths over some unpopular act or ruling of the Committee in their previous year of office, that some half-dozen or so fresh candidates are persuaded by their indignant fellow-members to offer themselves for election in opposition to the re-election of some of the outgoing Committee. As the Committee's full strength is thirty, the infusion of a few fresh members is not a very radical change to make in the Committee's constitution. But it must always be remembered that the instincts of the Stock Exchange are strongly conservative, and that, in the eyes of the "House," to oppose the re-election of so many as three members of the Committee smacks of revolution, while to oppose the re-election of six or more is proof positive that the Stock Exchange is in a seething condition of open rebellion. As every member is entitled to vote for thirty Committee-men, and as the election is by ballot and takes place annually, it is obvious that the Committee is fairly representative of Stock Exchange opinion. It is somewhat the fashion among members to grumble at the feebleness of the Committee, but as the remedy for this alleged feebleness is so easy, it is clear that the Stock Exchange, if it has not the Committee it desires, at least has the Committee it deserves.

In addition to the great check which the general body of members hold over the Committee from their power to decline to re-elect them, there is a further safeguard against tyrannical action by the Committee in the Rules and Regulations of the Stock Exchange. Now the Rules and Regulations of the Stock Exchange represent the united wisdom of all previous Committees. For the Rules have grown with the Exchange itself, and have been passed by bygone Committees, and pruned a little here and amended a little there, as years have passed by. Indeed, occasionally some desperately energetic Committee, more than usually eager for reform, has added a whole clause or two to an existing Rule, and so the Rules have gradually developed into their present shape. Nothing, perhaps, more eloquently testifies to the ingrained conservatism of the Stock Exchange, than the almost pathetic anxiety which the Committee always display to graft an additional clause on to an existing Rule, rather than to appear in any way to countenance innovation by passing a brand new Rule. And the ingenuity displayed in this matter, and the dexterity with which the old Rules are furbished up to meet new requirements, reflect great credit upon the resourcefulness of the Committee and their secretary.

The Rules, then, not only guide the conduct of Stock Exchange members in business matters, but also guide the Committee in their decisions on points raised as to the conduct of individual members in their dealings either with their fellow-members or with the general public. In fact, so long as the

conduct of a member is in accordance with the Rules of the Stock Exchange, the Committee cannot arbitrarily override the Rules. But the Committee do possess great discretionary power under Clause 3 of Rule 16, which enacts that—

The Committee may expel any Member who may be guilty of dishonourable or disgraceful conduct.

This clause, it will be observed, practically arms the Committee with full power to act should any contingency arise which has not been provided for in the Rules. It is, of course, also within the power of the Committee to make new rules, and to amend, alter, or repeal existing rules, but it is only in the case of dishonourable or disgraceful conduct on the part of a member that any new rule can be made retrospective in its action. The Rules, then, which the Committee are elected to administer, are to no small extent a restraint upon arbitrary conduct towards individual members on the part of the Committee itself.

Rule 19 is also of interest in considering the powers of the Committee. By this Rule the Committee are endowed with the power of suspending any Rule, and it reads as follows:—

The Committee may dispense with the strict enforcement of any of the Rules and Regulations; but such power shall only be exercised by a Committee especially convened for that purpose, and consisting of not less than Twelve Members, three-fourths of whom must concur in the resolution for such dispensation. The Resolution must be confirmed by a majority of the Committee at a subsequent Meeting specially summoned.

The functions of the Committee, which are amplified and expounded in the Book of Rules, are thus briefly summed up in Rule 5 :—

The said Committee for General Purposes shall regulate the transaction of business on the Stock Exchange, and may make rules and regulations not inconsistent with the provisions of these presents (*i.e. not inconsistent with the terms of the Stock Exchange Deed of Settlement*) respecting the mode of conducting the ballot for the election of the Committee, and respecting the admission, expulsion, or suspension of Members and their clerks, and the mode and conditions in and subject to which the business on the Stock Exchange shall be transacted, and the conduct of the persons transacting the same, and generally for the good order and government of the Members of the Stock Exchange, and may from time to time amend, alter, or repeal such Rules and Regulations or any of them, and may make any new, amended, or additional Rules and Regulations for the purposes aforesaid.

In Rule 54 we find the Committee, with true autocratic decision, announcing its superiority to the law of the land, for this Rule roundly asserts that—

No Member shall attempt to enforce by law a claim arising out of Stock Exchange transactions against a Member or defaulter, or against the principal of a Member or defaulter, without the consent of such Member, of the creditors of the defaulter, or of the Committee.

The Committee have power to intervene in cases where the principal of a Member shall attempt to enforce by law a claim which is not in accordance with the Rules, Regulations, and usages of the Stock Exchange, and will deal with such cases as the circumstances may require.

By Rule 55 the Committee invite clients who have a grievance against their brokers to submit the matter to the judgment of the Committee. This to

an aggrieved "outsider" may seem a somewhat quaint proposal, but it may safely be said that any client who has a real grievance against a member of the Stock Exchange cannot do better than put himself in the Committee's hands. The hopeless and not unnatural floundering of His Majesty's Judges amid the mazes of Stock Exchange detail, and the irrelevancy of counsel, make legal proceedings over a Stock Exchange dispute partake largely of the nature of a lottery, plus an inevitable amount of more or less unwelcome publicity, together with the certainty of incurring heavy legal expenses and the possibility of even the strongest case being lost through ignorant handling. The Committee do clearly understand the minutiae of Stock Exchange business, and so evenly do they hold the scales between member and client, that the Stock Exchange grumblingly asserts that the odds are always three to one on the "outsider" winning, whenever he appeals to the Committee. It is probably true that the client does win three cases out of every four which are submitted to the arbitration of the Committee. But this may perhaps be ascribed to the fact that the client must be possessed of a good case before he cares to invoke the assistance of such a tribunal, rather than to any bias against their own members in the minds of the Committee. Further, the client derives two solid advantages from putting his case into the Committee's hands: first, he avoids the law's delay and receives a prompt hearing; and, secondly, the Committee do not make any charge for dispensing justice.

Altogether, in spite of the mistakes which they

occasionally make, the Stock Exchange Committee have every right to claim that, as an active influence making for the purity of the corporate body which they control, they fulfil a great public duty in an exceedingly praiseworthy fashion. And they are certainly entitled to point to the infinitesimal amount of fraud committed by members of the "House" as a practical test of the excellence of their method of throwing open the Committee-room to receive without charge any complaint against a member which may be put forward by an individual client.

It only requires a comparison to be made between the methods of the Incorporated Law Society in the case of client *versus* solicitor, and the methods of the Stock Exchange Committee in the case of client *versus* stockbroker, for the public to appreciate how much they owe to the fearless manner in which the Stock Exchange Committee undertake to investigate any public grievance. At the outset the Incorporated Law Society openly declare that they will only investigate criminal charges made against solicitors—thereby elevating the Criminal Code into the code of honour of a learned profession. Further, the Incorporated Law Society insist upon a number of expensive affidavits being sworn and lodged with them before they will initiate an inquiry even into a case of criminal fraud. And lastly, the Incorporated Law Society so strongly urge the aggrieved client only to appear before them through a solicitor, that it is only at the cost of further legal expenses that a solicitor's victim can hope to obtain even a hearing. How severely this regulation must at

times press upon the client who has been deprived of the whole of his worldly wealth by the irregularities of his solicitor, requires no demonstration.

In comparison with this expensive and at times prohibitory method of the Incorporated Law Society, it is refreshing to turn to the way in which the Stock Exchange receives complaints from the public as to the conduct of its members. The Stock Exchange does not insist that a client can be possessed of no grievance worthy of investigation unless his broker has been guilty of a criminal act. The practice of the Committee being to hold an inquiry into every substantial grievance, they stipulate for no expensive affidavits nor for a bill of legal costs being incurred before the client can appeal to them for protection. If only on the ground of the cheap administration of justice, the investing and speculative public are under a great obligation to the Committee.

Not only so, but the Stock Exchange has every right to be justly proud of the excellent fruit which has been borne by this straightforward simplicity on the part of their ruling body. It is beyond dispute that stockbrokers and solicitors are drawn from the same strata of society; they attend the same public schools; frequently the solicitor's brother is a member of the Stock Exchange. And no one will assert that, so far as the amount of readily negotiable property entrusted to them by the public is concerned, the temptations of a stockbroker are one whit smaller than the temptations which beset a solicitor. Yet the frauds committed upon the public by solicitors during the last twenty years have been enormous,

while the Stock Exchange can point to a comparatively clean sheet. This result is unquestionably due to the very keen jealousy with which the Stock Exchange Committee upholds the code of honour among members of the Exchange. At times, later in this book, we may criticise particular decisions of the Committee, because they are by no means infallible, as a body. But, viewed as a whole, the work of the Stock Exchange Committee has been a great work, and excellently performed in the interests alike of the "House" and the public.

Stock Exchange Rule 55 gives in detail the stipulations made by the Committee as to the manner in which they shall be approached in the case of a dispute between Broker and Client. The Committee's demands are few and simple: they ask that—

RULE 55. If a Non-Member shall make any complaint against a Member, the Committee shall in the first place consider whether the complaint is fitting for their adjudication, and in the event of the Committee deciding in the affirmative, the Non-Member shall, previously to the case being heard by the Committee, sign a consent in writing as follows:—

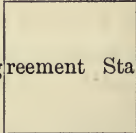
*To the Committee for General Purposes of the Stock Exchange,
London;*

In the Matter of a Complaint between
and

GENTLEMEN,—I do hereby consent to refer this matter to you, and I undertake to be bound by the said reference, and to abide by and forthwith to carry into effect your Award, Resolution, or decision in this matter, in the same manner as if I were a Member of the Stock Exchange; and I further undertake not to institute, prosecute, or

cause, or procure to be instituted or prosecuted, or take any part in proceedings, either civil or criminal, in respect of the case submitted. And I consent that the Committee may proceed in accordance with their ordinary Rules of Procedure, and I undertake to be bound by the same. Also that the Committee may proceed *ex parte* after notice, and that it shall be no objection that the Members of the Committee present vary during the inquiry, or that any of them may not have heard the whole of the evidence ; and any Award or Resolution of the Committee, signed by the Chairman for the time being, shall be conclusive that the same was duly made or passed, and that the reference was conducted in accordance with the practice of the Committee. And I hereby agree that this letter shall be deemed to be a submission to arbitration within the meaning of the Arbitration Act, 1889.

Agreement Stamp.



The members of Stock Exchange who are engaged in business as jobbers outnumber the members who act as stockbrokers in the proportion of about two to one. If, therefore, the Committee were composed of jobbers and brokers in their correct proportion, the jobbers upon the Committee for General Purposes would invariably outvote the brokers upon any question which sharply divided these two interests. But, unfortunately, an influential stockbroker, such as would be likely to obtain the requisite votes from his fellow-members to elect him a member of the Committee for General Purposes, is frequently deterred from offering himself as a candidate, from the

simple fact that his business activities are such that he could not devote his time to Committee meetings. As has been already mentioned, the stockbroker deals direct with and on behalf of the public, and consequently it is only at some sacrifice of his personal interests that a stockbroker can afford to absent himself from his business in the very heart of the business day in order to do his duty as a Committee-man. For a stockbroker's business is a very personal one, and the larger and the more influential the client the greater is his determination to see the particular member of the firm with whom he usually transacts his business. So that the risk of offending the cream of his *clientèle* by his attendance in the Committee-room is so great, that a stockbroker in active business often is compelled to refuse to allow his name to be put up among the candidates seeking election to the Stock Exchange Committee. The natural result of this is, that such representatives of the brokers as do figure upon the Committee are mostly men whose days of active business are over, and who have ceased to be in close touch with the details of up-to-date stockbroking. In the irreverent language of the "House," the stockbroker upon the Committee is generally one of the noble order of Stock Exchange fossils; and this is a most unfortunate thing for the whole fraternity of stockbrokers both in London and the provinces, because the stockbroker in his prime, when his voice would be most valuable at Committee meetings, is almost unknown in the council-chamber of the Stock Exchange.

The attendances of a jobber in active business

at the Committee-room table are not nearly so detrimental to his business connection as they are in the case of the broker. Whispering a few words to his partner or his authorised clerk before quitting the market, the jobber swings through the door of the "House" and up the Committee-room stairs in a flash just at the appointed hour, and descends from the deliberations of the Committee and is back in his usual place when the meeting breaks up with the same celerity as he departed. Even if in his absence one or two of his personal friends among his brokers have declined to do business with his market representative and have gone to a rival jobber in his absence, they at least do so without any feeling of personal resentment such as animates the neglected client of the broker, and on their next appearance in the market they come to him again with their business without feeling that they have any cause to air a grievance on the subject of his absenteeism.

The natural result of this is exactly what might be expected—namely, that the Stock Exchange is controlled by a Committee which is composed much too largely of jobbers, leavened only by a sprinkling of by no means representative brokers. This is certainly not to the best interests of the Stock Exchange community throughout the country, for it must be remembered that, though not nominally legislating for such important centres as Manchester, Liverpool, Birmingham, Glasgow, Edinburgh, and Dublin, yet the provincial Stock Exchanges, to enable the business between these important centres and London to proceed smoothly, do so closely bring

themselves into line with the enactments of the London Stock Exchange Committee, that London may be said practically to lay down the law for the provinces in all matters relating to Stock Exchange dealing. This being the case, it is manifestly unfair that the numerical strength of the jobbers upon the London Committee should in effect swamp the enormous predominant vote of the broker in provincial centres, where the jobber is almost unknown. Moreover, the broker is, by the very nature of his business, in constant contact with the speculative and investing classes, whereas the jobber is not. The broker ought in reality to be the mouthpiece of the public on the Stock Exchange Committee, and yet of the few brokers who sit there how many can fairly be said to be in close business touch with the outside public?

Now, it is this very inability of the Stock Exchange Committee to sympathise with the Stock Exchange requirements of the general public which constitutes the Stock Exchange's greatest danger. Probably no man who has any knowledge of the City would attempt to deny that there is a steadily increasing tendency on the part of the outside public to transact, not only their speculative business, but actually their investment business, through other channels than that of the Stock Exchange; and this tendency is enormously fostered by the bland apathy with which the Committee of the London Stock Exchange appear to regard all questions which affect the interests of the public. As jobbers, the majority of the Committee have little practical experience of the speculative

public and its helplessness in the hands of the company - promoter. The apathy of the Committee in the matter of companies issued without the formality of a prospectus, and their determination to enforce a "settlement" in a stock in which the public has been shamelessly victimised, have resulted in an enormous increase in the numbers of "outside" brokers, who earn large incomes from business which rightly should come to members of the Stock Exchange. Yet the absurdity of the system whereby a body of men, who are unacquainted with the ways of the public investor and speculator except by the merest hearsay, control an interest like the Stock Exchange, which depends for its very existence upon its popularity with the public, is a point which has never been forcibly borne in upon the members of the London Stock Exchange, who, in the face of a continued shrinkage in their business, are content year after year to perpetuate the folly of electing a Committee composed almost entirely of jobbers.

A transaction between two members of the Stock Exchange, in which one member or firm buys stock which is sold by another member or firm, is termed in Stock Exchange language a "bargain." Now the foundation - stone of all Stock Exchange dealing is the fact that a bargain, once entered into, is regarded in the light of an undertaking of an almost sacred nature, which at all costs and in all circumstances has to be rigidly carried out by the two parties to it. Indeed, it will be readily understood that, unless the Committee rigidly enforced the sanctity of the bargain, the whole system of the Stock Exchange

would collapse. If it were competent for a buyer of stock to attempt to revise the terms of his purchase, when, within a few minutes, perhaps, of booking his bargain, he had the annoyance of seeing his stock promptly fall several points in value, or similarly, if, when a member had sold stock, which promptly rose in like fashion, he were permitted by the etiquette of the "House" to suggest any readjustment of his selling price, the business of the Stock Exchange would be reduced to a state of chaos. The first law of the Stock Exchange is that under all circumstances a bargain is always a bargain. The only exception which the Stock Exchange Committee recognise to this law of the inviolability of the bargain is stated in Rule 59, which says—

No application, which has for its object to annul any bargain in the Stock Exchange, shall be entertained by the Committee unless upon a specific allegation of fraud or wilful misrepresentation.

The Committee, however, interpret this Rule in its very narrowest sense: the fraud or wilful misrepresentation is merely taken to mean that one member shall not wilfully deceive another member either as to the total amount of stock he has to deal in, nor as to what may be the current market price ruling at the moment the bargain is done. Beyond this question of sharp practice at the time a bargain is executed, the Committee treat as absolutely irrelevant all questions as to the fraudulent nature of the stock in which bargains are done. Although this great elementary truth as to the sanctity of the bargain is

only thus curtly referred to in Rule 59, yet the Rules, if closely studied, will be found to be saturated with the great principle that a bargain is always a bargain. Indeed, to understand the Rules of the Stock Exchange correctly, it is necessary to illuminate them with the light of this cardinal principle before they become perfectly intelligible. For instance, Rule 64 distinctly states that—

No Member shall enter into bargains in prospective dividends on shares or stock of railway or other companies.

No pronouncement could be more simple and definite than this, and yet such is the sanctity of the bargain in the eyes of the Committee, that, when such contraband bargains have been entered into in the very teeth of the Rules, the Committee not only recognise them, but actually legislate for their fulfilment; for Rule 179 enacts that—

The Official Assignees shall not admit any claims upon a Defaulter's estate arising out of transactions which are stated in the Rules as not recognised, until all other claims have been paid in full, but they shall forthwith collect and distribute amongst the Creditors all assets arising from such transactions.

Necessary though it obviously is that the inviolability of the bargain should be strongly insisted upon by the Committee, yet it is questionable whether this principle has not been pushed to the verge of the ridiculous of recent years. In justice to the fairness of the decisions of Stock Exchange Committees, as a rule, it is only right to say that the Committee of 1902-3 was undoubtedly a weak Committee; and their decision that bargains in the

Geduld Deep Level Mine must be settled, in spite of the manner in which this concern was introduced to the market, was rather a painful exhibition of an invertebrate Committee leaning weakly for support upon the great principle that a bargain is at all times a bargain.

The facts as to the introduction of the Geduld Deep Level shares to the market were these: The concern issued no prospectus, and its shares were dealt in, not for Special Settlement, but against the issue of share certificates. This method of introducing a new stock does away with the necessity of lodging with the Committee for their inspection the documents upon which the Company's leases and concessions are based: it is at all times a haphazard method of bringing a security into existence, and is one which the Committee would do well to discourage. Now, after Geduld Deep Level shares had been introduced to the "House" in this slipshod fashion, and had been "rigged" up to a considerable premium, and after certain not too fastidious financial newspapers had succeeded in tempting the public into purchases of the shares by adulatory paragraphs, it was suddenly asserted by men who knew the Johannesburg Main Reef well, that the Geduld Deep Level Mine was geographically in no sense the deep-level proposition of the well-known and valuable Geduld Mine. On this news, the market, which had been hitherto gaily soaring up into a substantial premium, suddenly "dried up" completely, as the Stock Exchange eloquently expresses it, and the unfortunate people who had been tempted into

making purchases of the shares of this so-called Deep Level Mine, on the strength of the proved richness of the upper levels of the Geduld Mine, found themselves possessed of unsaleable shares, which they had bought at a considerable premium. The mine had, in fact, been introduced under a palpable misnomer; its very name was a trap for the unwary; under such circumstances, a stronger Committee would not have hesitated to declare the whole of the dealings in Geduld Deep Level to be null and void. But, carrying the sanctity of the Stock Exchange bargain to the point of idolatry, the Committee decided that all bargains were to stand, and that purchasers must pay for these wrongly-described shares.

This decision of the Committee was the more deplorable, coming as it did close upon the heels of the revelations of wrongful description in the prospectuses of companies promoted by the London and Globe Finance Corporation and its allied concerns. It was an unfortunate decision, given at a time when both the investing public and the Stock Exchange were smarting under injuries inflicted upon them by the wiles of the company-promoter. It is as well, however, that a man at the outset of his Stock Exchange career should clearly understand to what extreme lengths, at times, this principle of the sanctity of the bargain can be pushed by the Committee's decision.

Like all abuses, the manner in which new issues are permitted in these days to flaunt themselves on the floor of the Stock Exchange without the formality of a proper introduction by the Committee, has

brought in its train a number of other abuses, which almost overshadow the original evil in the rankness of their growth and in the poisonous nature of the fruit which they bear. It is in no small measure due to the laxity which is at present exhibited in this matter of the introduction to the markets of the Stock Exchange of new issues, that serious temptations have been thrown in the way of members of the Stock Exchange, of the Financial Press, and of those who are responsible for the issue of "Tape Prices." Not only have these temptations arisen, but in only too many cases they have been yielded to. And the transgressors, finding that the apathy of the Committee permitted them to sin openly under the very nose of that august body without calling down upon themselves summary punishment, have naturally gradually waxed bolder, until the evil has assumed such proportions that the fair fame of the Stock Exchange has been dragged into most unseemly disrepute. Did the matter only end in a regrettable lowering of the standard of financial morality as observed by members of the Stock Exchange, this growth of abuses would be lamentable enough. But, acting as it does most detrimentally upon the interests of the investing and speculative public and on the purity of the Financial Press, it finally reacts on the prosperity of the Stock Exchange itself. It is clearly impossible to impoverish the investing and speculative public by entangling them in undesirable and even bogus flotations, without the resulting poverty of these classes reacting on the material wealth of the Stock Exchange. And an impoverished

Stock Exchange is a danger to itself and a danger to the community. Not only so, but the speculative and investing public, having had their confidence in the Committee of the Stock Exchange severely shaken, are apt to divert their business into other channels. This result is manifest at the present day in the undue growth of that financial fungus the "outside broker"—a type of operator who is amenable to the rules of no Committee, and who in most things is a law unto himself. That the "outside" broker is at present expanding luxuriantly at the expense of the orthodox member of the Stock Exchange, is a truth which no man who is familiar with latter-day finance can attempt to dispute.

Now, although in this chapter the action of recent Stock Exchange Committees is commented upon somewhat unfavourably, it is not for a moment suggested that a lad at the outset of his Stock Exchange career should hold anything but the highest opinion of the great work which the Stock Exchange Committee has done in the past. And though latterly the Committee has failed to exhibit that almost omniscient vigour of initiative which at one time so greatly distinguished it, even now, in its hour of decay, the Committee of the Stock Exchange is a great tribunal such as no similar corporate body has the good fortune to possess. Without diving unnecessarily into the mists of antiquity, the reason of the present sterility in legislation of the Committee is this—the Stock Exchange Rules, and the constitution and the authority of the Committee as it exists at present, are mainly due to two great members

of the Committee who have only comparatively recently died. These two great Senators of the Stock Exchange were the late Mr. W. T. F. M. Ingall and the late Mr. Louis Cohen. To the initiative of Mr. Ingall the "House" largely owes its excellent clearing-house system, and to his great mind, which had an extraordinary grasp of the minutiae of Stock Exchange detail, are due many of the Rules of the Stock Exchange as they stand at present. In Mr. Louis Cohen, Mr. Ingall was fortunate in possessing a colleague at least as capable as himself, for Mr. Cohen was unquestionably one of the shrewdest and boldest operators who ever opened a "jobbing-book." His transactions over the cable upon all the Bourses of Europe made London at one time a force to be reckoned with in International Finance. He possessed that instinctive grasp of men and markets which is so characteristic of the Jewish financier. To Mr. Ingall's brilliant capacity for detail was added Mr. Cohen's all-round knowledge of practical finance, and to these two men is due in a great measure the present shape of the Stock Exchange Rules.

It may be admitted that there is no more tedious person than he who insists upon the glories of Rome during the consulate of Plancus, but the fact is plain that the Committee of the Stock Exchange have never been fortunate enough again to possess two men capable of wearing the mantles of these two great legislators. Now, as the business of the Stock Exchange is, like all living organisations, in a perpetual state of transition, it is requisite that the Committee should feel themselves competent to

meet fresh phases of Stock Exchange development with fresh legislation as the occasion arises. And it has been to the incompetence of the Committee of recent years to keep pace with the financial growth both inside and outside the Stock Exchange, that most of the present abuses are due. Moreover, the greatness of their predecessors in office acts as a clog upon the present Committee's initiative, for both Mr. W. T. F. M. Ingall and Mr. Louis Cohen are still very living memories. And to alter and amend the Rules as handed down by these financial giants, is a task from which it is not difficult to understand a Committee of comparative pigmies somewhat nervously shrinking. In times of Stock Exchange need, the Stock Exchange has never yet failed to produce great men. At present the "House" cannot greatly plume itself upon its leaders, but the hour seems to be rapidly approaching when the Stock Exchange will have to pull itself together and in self-defence elect a Committee of real capacity, pledged to a programme of reform—a Committee willing to do battle with existing abuses on behalf of the general body of Stock Exchange members. The evil to the remedy of which the Committee of reform will first have to apply itself will be the latitude at present enjoyed by the company-promoter, who, under the existing system of laxity, has no difficulty whatever in smuggling on to the Stock Exchange all sorts of undesirable mushroom companies, and in creating a spurious market in the stocks and shares of these prospectusless and almost contraband concerns. The second evil with which

the Committee of reform will have to cope will be the misuse of the "Tape." And the third evil from which the Committee of reform will have to purge the Stock Exchange are the worse than indiscretions committed by jobbers in the market, who at present are only too willing to allow themselves to be made the cat's-paw of the promoter in working the various discreditable market "rigs" which have latterly become notoriously frequent.

CHAPTER III

THE WORK OF A BROKER'S OFFICE

Daily Routine—The “Dealing” and “Limit” Books—Orders and Limits, how entered—The Contract Note—The Beginner's Opportunity to learn the Work.

WE have next to consider the methods whereby a client instructs his broker as to the business he wishes to be transacted on his behalf, and the system of work which commonly prevails in brokers' offices. The details of the actual transaction inside the Stock Exchange will follow in their natural order in subsequent chapters.

The simplest form of a stockbroking establishment is that of an individual stockbroker, without a partner or partners. A member of the Stock Exchange carrying on business in this single-handed fashion is almost compelled to employ an authorised clerk—that is to say, a clerk who has received the permission of the Stock Exchange Committee to transact business in the “House” on behalf of his principal. Without such an authorised clerk, a single-handed stockbroker would only be able to leave the Stock Exchange to interview clients in

his office or to call upon clients at their offices, with the risk that business which came in to him in the meantime by telegram might inevitably be delayed. And delay in Stock Exchange business is apt to entail most serious consequences at times.

We shall describe, then, for the sake of illustration, the routine in the office of a single-handed stockbroker, employing, that is to say, two clerks whom the Committee permit to enter the "House," one of these being authorised to deal and the other being unauthorised. In addition to these two "House" clerks, there is usually a bookkeeper, whose work is practically confined to the office.

The Stock Exchange "bargain" originates in the broker's office by instructions from the client; such instructions may be received either by letter, telegram, telephone, or verbally. In the case of orders received either by post or telegram, there is, of course, a written record. But where a client calls at the office to give personal instructions, it should be made an invariable custom to write down his instructions, and obtain his signature or initials thereto before he leaves the office. In the case of telephonic orders, the greatest care should be exercised in arriving at a clear understanding as to the details of the order, and, as a further safeguard, immediately the business has been done, advice thereof should be promptly transmitted by telephone to the client in order that any inaccuracy in transmission of the original order may be detected and rectified before the market has time to change materially.

In normal times, the work of a stockbroker's

office commences at ten o'clock in the morning. At that hour the authorised clerk should open the letters and proceed to take note of their contents in a book which is carried in the "House" by his principal. This book is called the "jobbing book." Although a broker does not job, yet the book in which he enters bargains done on the Stock Exchange is called his "jobbing book" by one of those quaint perversities which are not uncommon in Stock Exchange phraseology. The "jobbing book" is, in fact, a case usually about five inches long by two and a half inches broad. Inside this case are fastened by elastic bands, so as to be readily removable when filled, two thin books, which are called respectively the "dealing book" and the "limit book."

The "dealing book" is usually ruled in this fashion :

DEALING BOOK.

	2	January	1903			2	January	1903	
British	1	J. Jones	42 $\frac{7}{8}$	Smith	Goschens	$\frac{1}{2}$	T. Brown	92 $\frac{3}{4}$	Robinson

On the left-hand side, which is usually spoken of as the "bought side" of the book, are entered the purchases made. In making an entry the name of the stock is entered first, then the amount of stock

and the jobber's name from whom the stock has been bought, with the price at which the bargain was done, and in the last column is entered the name of the client. On the right-hand side, which is termed the "sold side," a similar note is made of sales effected. The entry on the "bought side" shown above reads thus: That the firm owning the "dealing book" in question has bought one thousand North British Ordinary Stock from a jobber named J. Jones at $42\frac{7}{8}$, on account of a client named Smith, and has sold five hundred Goschens to a jobber named Brown at $92\frac{3}{4}$, on behalf of a client named Robinson.

From habit, and from the circumscribed space of the "dealing book," bargains are always entered in the slang abbreviations of the "House." For instance, the numeral 1 stands for £1000 of nominal stock, and the deferred ordinary stock of the North British Railway is tersely entered as "British." So in the case of the sold bargain, $\frac{1}{2}$ a Goschen stands for £500 nominal stock in the Consolidated Debt of Great Britain and Ireland. These abbreviations are often most puzzling to a beginner. A glossary of the most usual Stock Exchange terms will be found in the Appendix. It may be well to take this opportunity of impressing upon Stock Exchange clerks the serious consequences which may result from a contract being incorrectly rendered or from a bargain being incorrectly checked. Nothing prejudices a clerk so much in the eyes of his employer as any piece of carelessness on his part which involves his principal in a dispute

either with a client or a fellow-member. A dispute almost always entails loss of money to the principal and loss of prestige to the clerk. Therefore we strongly advise a youngster entering a Stock Exchange office to be deterred by no foolish feeling from asking an explanation of anything which may puzzle him. After all, there is much less loss of dignity involved in the operation of asking a fellow-clerk to explain a Stock Exchange intricacy than in floundering ignorantly into a mistake and being regarded thereafter by one's employer as an untrustworthy type of imbecile.

One of the great aids to success as a stockbroker consists in the "jobbing book" going down to the "House" at the opening of the day with the whole of the gist of clients' letters, so far as they relate to actual business, accurately copied into it. Accuracy over this detail at the beginning of the day saves all necessity for feverishly dashing up to the office to verify the exact terms of an order received by post, and saves all risk of an order being overlooked altogether.

Let us now take the simplest form of order received from a client. The simplest order is the order which comes by post. For in this case the client sets down in black and white what his instructions are. Of orders received by letter the simplest form of all is as follows:—"Please buy me one hundred Randfontein shares at best," or "Please invest £750 in Consols so as to cover commission and all expenses."

These two orders contain no stipulation as to

price. They will therefore be executed in due course at the opening of the market, and the client will be duly advised that the business has been done. With the exception, therefore, of the purchase-money being paid by the client and of the stock being handed over to him, these transactions are completed within the first few minutes of markets opening on the day the order is received. Such orders as these are commonly entered upon the interleaf of the "dealing book." Stock Exchange stationers invariably supply these books interleaved for the convenience of jotting down such orders. Upon the interleaf of the "dealing book" are also entered instructions of other kinds which refer to work to be done inside the "House." Requests such as these are entered on the interleaf:—

"Please wire me the Brighton traffic as soon as it is published, and also the price of Brighton A," or "Please wire me the price of Goschens when the Bank Statement is issued." The interleaf of the "dealing book" should be so entered up each morning as to keep before the principal and his authorised clerk all instructions received from clients which are to be executed in the "House" on that day.

Then we come to the more complicated forms of orders from clients, which are entered in the "limit book." These usually take the form of orders which are to be executed only if the market offers an opportunity of buying or selling stock at a certain specified price. Such instructions as these are usually couched in this form:

"Please buy me 100 Randfontein at $3\frac{1}{8}$, retaining

this limit until cancelled," or "If Louisville touch 133, please close the shares I have open." The "limit book" is kept in much the same fashion as the "dealing book." That is to say, limits instructing a broker to buy stock are entered on the left-hand side of the book, and orders to sell stock are entered on the right-hand side. On receiving such an order as to "close the Louisville I have open," it is necessary to turn up the Client's Ledger to see whether the client in question is a "bull" or a "bear" of the stock, and whether he wants to buy or sell shares at 133, and also how many. Slipshod limits of this sort from clients are of frequent occurrence in a broker's office, and it need hardly be said that, unless care is exercised, they are easily productive of serious mistakes. In this instance, we will suppose that the Clients' Ledger shows that this particular client has previously bought 150 Louisville and Nashville shares: this purchase would naturally be "closed" by selling a corresponding number of shares at the price he has named, namely, 133. So the limit is entered upon the "sold side" of the "limit book." Entries are made in this book as follows:—

LIMIT BOOK.

+ 100 Randfontein 3½ A. Jones his letter of 5/1/03	— 150 Louisville 133 J. Smith his letter of 5/1/03
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A reference, such as "his letter of 5/1/03" in the "limit book" is small trouble to enter at the time the

limit is received, and greatly expedites any future reference to the original instructions. In the case of a limit which may be impracticable at the time it is received, brokers find in practice that it is much safer to "leave the limit," as it is called, with a jobber in the market. For, obviously, a broker cannot be perpetually in one particular market all day, as his business lies all round the "House" and in all markets; therefore it is customary for the broker in his turn to leave with a jobber in the market the limit which he himself has received from his client. To prevent confusion and to obviate the possibility of the limit being twice executed, it is important to enter in the "limit book" the name of the jobber with whom it has been left. Also, in case the client should elect to cancel his limit at any time, it is essential that the broker should then and there cancel the limit with the jobber with whom it has been left, and therefore, whenever a limit is thus placed with a jobber, an entry to that effect should always be made in the "limit book"—"left with so and so" underneath the entry is the usual way of recording such a fact.

In addition to these orders arriving by post, there are the conditional orders received on previous days, which have not yet been executed owing to the market not having touched the stipulated level. A record of these unexecuted orders is kept in the "limit book": a smart head clerk should, however, draw his principal's attention to any of these "limits" the execution of which has been rendered probable by any change in foreign politics or other circumstances affecting Stock Exchange values. For instance, on the

receipt of any grave political news a competent head clerk would turn up the "limit book" to see whether any of the buying orders therein were likely to be practicable should markets open decidedly flat. Or, similarly, should the political situation be suddenly relieved of any anxiety which has been hanging over markets, and should there be a probability that markets consequently would open good, the "limit book" should be searched for orders to sell stocks, and the broker's attention be drawn thereto before he goes down to the Stock Exchange.

There is one particular pitfall in connection with limits which a beginner will do well to take a note of and avoid. It is a custom among members of the "House" that all limits, whether to buy or to sell, are cancelled by the carry-over day, which is the commencement of a new account. Now, some clients, particularly of course country stockbrokers, for whom London brokers act as the market-agents, strictly adhere to the custom, and consider that all their limits are automatically cancelled by the opening of a fresh Stock Exchange account. On the other hand, a great many private clients are in complete ignorance of any such custom, and they intend their order of "retain until cancelled" to be literally carried out, no matter how many Stock Exchange accounts may intervene. Accordingly, to prevent the possibility of friction with clients on this point, it is always well, on the day before carry-over day, to write to clients asking them whether they wish their limits to be extended into the new account. On the receipt of such an extension from his client, the

broker must be careful to see that he, on his part, also renews his limit with the jobber; for the original limit that the broker had left in the market has, of course, been cancelled by the opening of a new account.

Having thus equipped his employer for his day's work, the great object of the broker's clerk should be to keep himself in touch with his principal as frequently as possible during the day. The whole art of management of a Stock Exchange office is to minimise so far as possible the rush of work which is inevitable at the termination of each account. If this is to be achieved, it is essential that each day's work during the account should be completed in itself on the same day as far as possible. And this can only be done by the transactions of the morning being copied from the "jobbing book" into the "checking book" in the middle of the day, say during the principal's luncheon interval. In the same way, if possible, a copy of further business done in the "jobbing book" should be taken again about half-past three in the afternoon. By this means, in the case of a broker, those important documents, the contracts, can be made out with due care and deliberation, and the letters appertaining thereto can be written before the broker himself comes up from the Stock Exchange when it closes at four o'clock. This system not only enables the clerks in the office to get well ahead with their work, but it also enables their employer to leave the City earlier than if contracts and letters requiring his signature are not commenced until the end of the day.

The preliminaries of the transaction as between broker and client are completed by the despatch of the contract note, a specimen of which is here given.

CONTRACT.

Bought by order and for account of JOHN SMITH,
for payment 29th June.

(Subject to the Rules and
Regulations of the London
Stock Exchange)

Drafts on Country Bankers
must arrive two days earlier.

1000 Electric Aerial Transmission Co.'s			
Preference Shares, £1 each, 15s. paid,			
at 2/9 per share		£137	10 0
Commission, $\frac{1}{2}$ d. per share, and Duty		2	2 8
Stamp and Fee		0	17 6
		<hr/>	
		£140	10 2
		<hr/>	

Contract
Stamp
1/-

HENRY JONES & Co.,
Stock and Share Brokers,
Warnford Court and Stock Exchange,
London, E.C.

We see, then, that the bargain, so far as the client is concerned, is initiated either by his giving an order to buy or sell stock without limit as to the price, or by his leaving a limit price at which stock is to be bought or sold, when practicable. Now, a junior clerk, to obtain a proper insight into the business of a Stock Exchange office, should always arrive early, and, if possible, should carefully read all the letters relating to the business. This is always possible in a small office, though in a large firm, where departments are necessarily more sharply defined, it is sometimes

impracticable. The more regularly a youth acquaints himself with the form in which Stock Exchange correspondence is couched, the more rapidly will he become capable of writing an intelligible letter himself on his employer's business. Moreover, in the curiously haphazard world of the Stock Exchange, a junior clerk will find that there is no system of higher education for the training of the perfect Stock Exchange clerk, and that his progress in efficiency will depend entirely upon the exercise of his own powers of observation. Therefore, whenever he can do so without interfering with his own office work, let him try his hand at the various details of Stock Exchange business which he sees going on around him. If he will begin to form his mind by arriving at the office sufficiently early to master the contents of the letters, and if he will stay a little later in the evening than he otherwise need do, for the purpose of studying the entries which were made from the letters in the morning on the interleaf of the "dealing book" and in the "limit book," he should in a very few weeks be capable of performing the task which is called "taking the orders out of the letters." For his own information he should practise doing this on odd scraps of paper in the early morning, and then in the evening, when the "dealing book" and the "limit book" come up from the "House" at the end of the day's work, he should compare his own rough "take out of the orders" with the actual "take out" done by a clerk of greater experience. By methodically persevering with this system of self-education, a stockbroker's clerk will rapidly obtain a very wide

knowledge of Stock Exchange correspondence and a very clear understanding of the bargain, so far as it affects the client.

Besides the inception of the bargain on the part of the client, a junior clerk in a stockbroker's office has every opportunity afforded him of studying the copies of telegrams despatched to clients, and of reading the letters written by his principal confirming these telegrams and enclosing broker's contracts for the business done. He will notice how the limits to buy or sell stock are struck out of the "limit book" when market fluctuations bring the prices at which stocks were entered to be bought or sold within the range of actual dealing. And he will see how, in place of the entry which has been struck out of the "limit book," another entry has been made in the "dealing book," showing the completion of the bargain in the name of the jobber in whose care the limit was left. Also, he will have many opportunities of studying the weakness of human nature, and of observing how the vacillating client, who a week or two previously would have jumped at the chance of selling his stock at the limit he named for it, will hastily telegraph to his broker, as soon as his limit begins to verge upon practicability, for the purpose of increasing his limit price to some impossible figure, and thereby, nine times out of ten, missing his market altogether.

Almost the whole of the vital matters relating to the bargain, so far as it consists of the instructions given by the client, and of the advice by telegram and letter from the broker that the client's order has been executed, the system of bookkeeping between broker

and client, and the manner in which contracts are made out—all these important details come within the survey of a stockbroker's clerk who has not been admitted to the privileges of a "House" clerk. Therefore, should it be impossible to obtain a "House" clerkship at once for a lad at the outset of his Stock Exchange career, he can console himself with the reflection that he can gather most valuable Stock Exchange knowledge and experience even before he is allowed to set foot inside the "House" itself.

CHAPTER IV

HOW A BROKER TRANSACTS BUSINESS IN THE "HOUSE"

Finding the "Shop" Jobber—"Making a Price"—"The Turn of the Market"—Large Lines of Stock—The Importance of knowing with whom to deal—How to acquire this Information.

LET us now follow the proceedings of the broker after he has received, either verbally or by letter, an order from a client to buy or sell a certain number of certain shares. The broker proceeds to the "House," and goes to the market in which these particular shares are dealt in. It is important at the outset that an embryo stockbroker should most clearly understand that at all times "the Market" means to an intelligent stockbroker the source whence he can most advantageously buy stock on his client's behalf, or the medium through which he can dispose of his client's stock to the greatest advantage. By no means do the boundaries of the market lie within the narrow precincts of the Stock Exchange itself. Moreover, when the market is within the Stock Exchange, there is a great art in learning by observation which is the jobber or the group of jobbers in any particular

market who make a speciality of dealing in any particular stock. A jobber or the two or three firms of jobbers who habitually have limits left with them, and are in constant touch with the controlling House or the House of Issue which promoted any particular security, are spoken of in the Stock Exchange as "the shop" dealers.

Now it is the amount he possesses of this knowledge as to who are the "shop" jobbers in the multitude of stocks dealt in on the Stock Exchange, which determines whether a broker is or is not a clever broker. In a transaction between broker and jobber, the broker is employed by his client to deal for him upon the finest terms obtainable; it is therefore the broker's duty to deal direct with the "shop," to the elimination of all unnecessary intermediaries. So, supposing that a broker takes his client's business to a jobber other than the jobber to the "shop," this jobber, not making a speciality of dealing in the shares required, is compelled to fall back upon the jobber who does so: in fact, the broker in such a case imports an entirely unnecessary intermediary into the transaction. For having selected a jobber at haphazard, who in turn goes to the "shop" jobber, the broker weights his client's business thereby with an unnecessary expense. For both the haphazard jobber and the "shop" jobber naturally expect to make a profit out of the transaction; so that the client's business is badly done to the extent of the profit made by the redundant middleman unnecessarily imported into the transaction by the ignorance of the broker, whose knowledge of the market

in which he was instructed to deal was not sufficient to enable him to take his client's business direct to the right quarter. The elimination of superfluous middlemen is one of the great arts of stockbroking. The right attitude of a stockbroker is to regard himself as engaged in a species of financial duello on behalf of his client, and in justice to his client a broker must be scrupulously careful to give away no points to his adversary, the jobber.

It is, of course, quite out of the question that a broker should be conversant with the "shop" jobber in every one of the thousands of securities in which the Stock Exchange deals. A young broker's clerk, who is suddenly confronted with an order in an unfamiliar market, should not feel any hesitation about consulting another broker or another broker's clerk of riper experience, whose firm, he is aware, do habitually deal in the market of which he has no intimate knowledge. Without in any way disclosing his client's business, it is quite customary for one broker to ask another broker: "Who do you find is the best man to go to in, say, Matabele Gold Reefs, and how close a price do you expect him to make you in 500 shares?" or whatever may be the amount of the order received. It is at all times better thus to consult a brother-broker as to the details of an unfamiliar market, rather than to injure your own reputation as a broker and to sacrifice your client's interests by dealing with impetuous rashness in a market of which you are ignorant. The shrewdest brokers in the "House" are constantly in the habit of consulting other brokers in this fashion as to market details, and a youngster

need feel no false shame in this matter. The right point of view is to regard the jobber as a skilled antagonist, and on no account to attempt to cope with him without completely arming yourself for the conflict.

Having ascertained or being previously aware of which is the best market channel for his purpose, the broker goes up to the jobber of his choice and asks him what is the dealing price in his client's stock. If the jobber happens not to be "the shop" in the stock in question, he forthwith proceeds to find out from "the shop" the exact price which is ruling at the moment. In Stock Exchange language, the jobber gets "the shop" "to open to him." That is to say, the dealer who is operating in the market on behalf of "the shop" tells the inquiring jobber that the price of Modderfontein shares, for instance, is $11-11\frac{1}{8}$, and that he "will make him that price" up to, say, 500 shares. On this, the jobber returns to his broker, who meanwhile has been waiting for him on the outskirts of the market, and "makes him the price" of $10\frac{1}{8}-11\frac{1}{8}$ in Modderfontein shares. Now, when a jobber "makes a price" in stock either to a fellow-jobber or to a broker, he invariably quotes two figures. For instance, in the above example, the "shop" dealer made a price of $11-11\frac{1}{8}$ to his brother-jobber; the meaning of this is—that "the shop" undertook either to buy Modderfontein shares at 11 or to sell them at $11\frac{1}{8}$, and the jobber when he in turn "made a price" in Modderfontein to his broker, made it $10\frac{1}{8}-11\frac{1}{8}$, which meant that the broker was at liberty either to buy Modderfontein from the jobber at $11\frac{1}{8}$ or to sell them to him at

$10\frac{1}{8}$. On this transaction, then, if the broker sold 100 Modderfontein at $10\frac{1}{8}$ to the jobber, the jobber would immediately return to the "shop" dealer and sell him 100 Modderfontein at 11, as he had "made the price" of $11-11\frac{1}{8}$ in Modderfontein shares. Thereby the jobber would make a profit of $\frac{1}{8}$ per share on 100 Modderfontein shares by acting as the middleman between the "shop" dealer and the broker. This intermediate profit, or at any rate a large portion of it, the broker would have saved his client had he only gone himself to the "shop" dealer direct, and dealt with him without any intermediary. Here we see the radical difference between a stockbroker and a clever stockbroker—a stockbroker deals indiscriminately with any jobber in the market whose credit he considers to be satisfactory, while a clever stockbroker at all times does his utmost to deal direct with the "shop" on the finest terms possible, so as to save his client all intermediary profits.

The jobber, in any case, is of course unaware whether the broker is a buyer or a seller, and he does not know in how much stock the broker wishes to deal. By Stock Exchange custom a jobber who quotes a dealing price is not compelled to deal in more than £2000 of nominal stock, or one hundred shares if the market price is under £1, or fifty shares if the price is over that figure. If a broker's order is within these dimensions, and the jobber makes a sufficiently close price, according to the custom of the market, with which the broker has already familiarised himself, the broker deals outright without any further finesse. A jobber, for instance, might make a

price, 2s. 6d. to 2s. 9d., whereupon the broker would say, "I buy (so many) shares," and the price would be 2s. 9d.; had he sold it would have been at 2s. 6d. This margin in making a price enables the jobber to make a profit by quoting the shares to the next broker approaching him with business, 2s. 7½d. to 2s. 10½d., when, if the second broker proves a seller, he makes a profit of 1½d. per share; if a buyer, he has a larger margin, to enable him to replace the shares without loss. This difference between the buying and selling price of stocks or shares is called the "turn of the market."

In the case of large orders, however, the fencing between broker and jobber becomes somewhat keen, and the etiquette of this duello allows the jobber to ply the broker with any number of questions prior to making him a dealing price. On the other hand, it should be the determination of the broker not to give the jobber the slightest clue as to his client's intentions, or of the amount of stock in which he wishes to deal, before a business price has been quoted. There are quaint Stock Exchange customs on this point which limit the amount of finesse which is legitimate on these occasions, and the Stock Exchange Committee, in case of dispute, are most rigid in upholding these customs. For instance, it has been held that, if a broker accosts a jobber with the information that he wants to deal in, say, "ten Trunk Thirds," then ten Trunk Thirds ought to be all that he has to deal in; that is to say, he has volunteered the information that he wants to deal in £10,000 Grand Trunk Third Preference Stock, and therefore this amount of stock

ought to constitute the whole of his order. On the other hand, if a broker opens the discussion by asking how he can deal in "ten Trunk Thirds," the jobber then has no grievance if it ultimately turns out that the "ten Trunk Thirds" in which the jobber has dealt with him are only a part of a larger order, and that he is going on from his first jobber and completing the balance of his order with rival jobbers. It is, however, perfectly legitimate in such circumstances for the jobber who has already dealt in £10,000 to openly bid or offer stock, as the case may be, in order to "spoil the market," as it is termed, for the balance of the broker's order. A broker who has only dealt in, perhaps, £10,000 stock out of £50,000 is then placed in an exceedingly difficult position with his client.

Large lines of stock are, without doubt, exceedingly ticklish things to handle successfully. Experience points to the following as being the best method of tackling a large order:—On receipt of client's instructions, the broker should go over to the marking board in the Consol Market and see what, if any, have been recorded dealings, so far, in the stock. Having ascertained this, the broker should go to the largest jobber in the market and put it to him that he wants to deal in fifty thousand stock, or whatever his total order may amount to. The broker may boldly offer to deal outright in his whole line at any half per cent., or possibly three-quarters per cent., price which the jobber may elect to make him. These tactics are particularly good play if the broker happens to be a seller in a roaring good market or to

be a buyer in a really bad one. For in that case the jobber would be inclined to "read" the broker a buyer in a good market and a seller in a bad one. Therefore, if the market price in a retail quantity of stock were, let us say, $51\frac{1}{8}$ — $51\frac{1}{4}$, then, in a good market, the price the jobber would make in a large parcel of stock would probably be 51 — $51\frac{3}{4}$: so that, if the broker were a seller he would get out of his 50,000 stock at 51, which would compare favourably enough with the "markings" on the Board. Similarly, were the retail price $51\frac{1}{8}$ — $51\frac{1}{4}$ in a bad market, the jobber would guess the broker to be a seller, or, on the other hand, he would be glad enough to get out of a large line of stock should the broker prove to be a buyer after all. Consequently the jobber in a bad market would make the broker some such price as $50\frac{1}{2}$ — $51\frac{1}{4}$, in which case the broker would purchase his 50,000 stock at $51\frac{1}{4}$, a price which would look well in comparison with previous "markings," the stock having been dealt in up to that moment on the basis of $51\frac{1}{8}$ — $51\frac{1}{4}$. But if the broker is "the same way" as the market, that is to say, if he is a buyer in a good market or a seller in a bad one, this course is not to be recommended. In that case, or, indeed, if he be "the same way" as the trend of the market, it is a wise precaution for the broker to inquire on what three-quarter per cent. basis his jobber will make him a half per cent. price in his line of stock, or on what one per cent. basis he will make him a three-quarter per cent. price. That is to say, if we again take $51\frac{1}{8}$ — $51\frac{1}{4}$ as the retail price of the stock, the broker would ask the jobber upon what

three-quarter per cent. basis he would make him a half per cent. price in 50,000 stock. To which the jobber might reply that he would make him a half per cent. price somewhere between $50\frac{7}{8}$ and $51\frac{5}{8}$, the broker would then know that, if he were a seller, the worst price at which he would have to dispose of his client's stock would be $50\frac{7}{8}$, whilst possibly the jobber might ultimately make him 51 — $51\frac{1}{2}$ or else $51\frac{1}{8}$ — $51\frac{5}{8}$ as his half per cent. price. It would then be for the broker rapidly to review mentally the previous "markings," and to make up his mind whether, did he sell his client's stock either at $50\frac{7}{8}$ or at 51 or at $51\frac{1}{8}$, his client might feel dissatisfied with the price obtained. And if, on consideration, the broker felt that the price might appear unsatisfactory to the client, he would be at liberty to break off negotiations with the first jobber, and to see if he could obtain a more suitable price from another one. By this means a broker, having posted himself in the previous markings in the stock from the marking board, will have a very good idea, before he commits himself to deal, whether on the basis on which the jobber suggests that he will make a price, his client's business will compare favourably with business already recorded. Or the broker with a large line to handle may agree to deal outright in half of it at, say, a three-eighths price, and to leave the other half with the jobber to complete as opportunity offers, and to allow the jobber a sixteenth or an eighth on the balance as he executes the order. In any case, it is never good policy to do anything but to go to a large dealer to deal in a large line of stock.

Another quaint Stock Exchange custom in connection with large lines of stock is this: that if a jobber, having made a broker a price in, say, five or ten thousand stock, ventures to inquire, after the broker has dealt, whether that is all that the broker has to do, the broker, when so accosted, can compel the jobber to put down a bargain in the whole of the rest of his order at the price in which he has already dealt in a part of it. For any inquiry which tends to what the "House" terms "opening another man's book" compels the inquirer to "finish" the man he has chosen to cross-examine after the completion of a bargain. In the preliminaries, prior to a price being made, any amount of inquiry is legitimate, though it may not elicit any response. But when a bargain has been done, any further questioning on the part of the jobber is considered to be tantamount to an offer to go on to any extent at the same price.

The deal having taken place, the respective parties make a memorandum of the bargain in their "jobbing books," which are handed over to their clerks, and the broker's personal part of the transaction is finished, excepting, perhaps, the signing of the contract note (see p. 50), the letter of advice, and the eventual cheque.

To return to the important question of the "shop," it cannot be too emphatically impressed upon a man at the outset of his stockbroking career, that the client is an animal of curiously gregarious habits. Whenever two or three men with an interest in the Stock Exchange meet together, it is their invariable habit to discuss the "House" and its markets, to the exclusion

of almost all other topics. This is equally true of all grades of clients. From the dapper and carefully groomed banking chairman, whose mind runs rather upon Consols, India Threes and Railway Debentures, to the somewhat seedy kerbstone operator, whose financial horizon is bounded by low-priced rubbish in the Mining Market, the Stock Exchange operator is always willing to listen to Stock Exchange gossip. Your banking chairman may prefer to say little and to let the honours of the conversation remain on the other side of the table. But still he is always willing to encourage a man of average intelligence to chatter about Markets, for he is every whit as much interested in the departments which come within his particular province as is the more garrulous kerbstone frequenter, who will lay down the law in matters financial with an emphasis which is generally in inverse ratio to the size of his bank-balance. The clever stockbroker is the broker who constantly keeps this talkative habit of Stock Exchange clients before him, and who sedulously cultivates and extends his knowledge of who are the "shop" dealers in as many stocks as possible out of the multitude of securities dealt in on the Stock Exchange. It is, of course, the obligation of the stockbroker to exert himself at all times to the utmost in the interests of his client; but, without putting the matter on so lofty a plane as this, it may easily be shown how vital it is to the broker's own prosperity that he should deal upon the very finest terms obtainable on his client's behalf.

For instance, let us go a little further back in the Modderfontein deal cited above, and let us suppose

that the broker in question was instructed at eleven o'clock in the morning to buy 100 Modderfontein shares by a client, who, on the previous evening, had discussed the prospects of the Kaffir market in general with two or three friends after dinner, and let us say that the outcome of this discussion had been a general consensus of opinion that Modderfontein at their present quotation were the pick of the South African basket, and that this decision had further crystallised into a resolution, on the part of the men who had arrived at it, for each to buy himself one or two hundred shares at the opening of the market on the following day. Then, on the next occasion on which they met, probably the very first question which would be asked would be, "At what price did you buy your Modders?" And then would ensue a general comparison of the purchases they had respectively made. Naturally enough, the buyer whose broker had dealt indiscriminately with the first South African dealer he had chanced to meet, would find that his shares had cost him more than those of his friend whose broker had had the discrimination to know and to single out as his market medium the "shop" dealer. The cleverness of the clever stock-broker as compared with that of his competitors would, in fact, be clearly manifest to the whole party who had decided to buy Modders. So it is his own ability to deal on the very finest obtainable terms which stamps a broker as clever, and this cleverness is a broker's best and only advertisement. Of course, at times, the accident of happening to deal a few minutes earlier or a few minutes later than a more

haphazard broker may, owing to a mere market fluctuation, make the business done by a clever broker compare unfavourably with his less scientific competitor. But that is merely an accident in the game, for so surely as a man sets himself perseveringly down to play the Stock Exchange game strictly scientifically, his science will make itself felt in the average result as certainly as does the science of a skilled whist-player.

At least nine-tenths of the art of scientific stock-broking consists in knowing with whom to deal. And this art a youth should begin to cultivate as soon as ever he is admitted to the "House." Suppose a lad enters a small stockbroker's office where the dealing is habitually done by the principal, assisted by an authorised clerk. Of course, in the case where the broker has the reputation of being a clever hand at the game, or where his authorised clerk is considered to be of above the average smartness, the amount of information which the novice will obtain as to the best channels through which to deal in certain stocks will be of great service to him in his subsequent career. Even, however, if an embryo stockbroker enjoys the advantage, in the office in which he is gaining his experience, of observing in which particular quarters a really fine broker transacts his business in various stocks, nevertheless let him also seek to develop his own knowledge of which may be the real "shop" in as many securities as possible. Besides, in quite a number of brokers' offices he will find that the science of dealing is altogether neglected, and that many brokers habitually deal with certain

jobbers rather because they are relations of theirs or because they are near neighbours in the suburbs, than because they believe that, by dealing with such a firm, they are exerting themselves to the very best advantage on their client's behalf. As has been already pointed out, it should always be the object of a stockbroker to transact his business with the "shop" direct, or at any rate with as few intermediaries as possible, and a broker can only achieve this skill in dealing by knowledge derived from long observation in the market, and by carefully studying the prospectuses and reports of loans and companies which are popular speculative mediums, or which appear likely to become so from the amount of public interest which they excite at the time of their flotation.

The question, then, is—How should a broker set about storing up information which will enable him to do his clients' business upon the finest possible terms? It may be said at once that there are very few stockbrokers who take the trouble systematically to acquire this information, but also it must be remembered that there are very few brokers who stand out above their competitors as pre-eminently clever in their professional capacity. It is only such firms as do make a study of certain securities, and are thoroughly acquainted with what is termed the "inside hang" of their financial history, who do finally elbow their way to the front as thoroughly capable stockbrokers.

We will take first the higher grades of investment stocks, where the locating of the "shop" is a comparatively easy matter. In Consols, where there is

always a free and a close market, and where the market is situated inside the Stock Exchange and nowhere else, there is no other medium for dealing save in the "House" itself. But in Colonial Loans there is often a better market outside the Stock Exchange than is to be found among the jobbers inside. To arrive at the name of the "shop" in Colonial Loans is simplicity itself. The financial house or the Colonial Bank at which the coupons of the loan in question are payable is invariably the "shop" in that security. And information on this point is readily obtainable in the *Stock Exchange Year-Book* or the other multitudinous books of reference which are published, giving minute particulars of the leading Stock Exchange securities. Therefore, having found, by inquiry in the market, what may be the most advantageous terms on which he can deal "inside," it is always worth a stockbroker's while to ascertain, by walking over to the "shop," whether he can there transact his clients' business to greater advantage. This, of course, entails a trifling exertion on the part of the broker, and in bad weather it is by no means such a comfortable method of dealing as booking his bargain at the first reasonable-looking price that the broker may have made him "inside." But no man can build up a reputation for being a clever broker unless he is capable of taking infinite pains on his clients' behalf, and a broker should always bear in mind that country bankers, insurance companies, and similar classes of clients who affect the better class of stocks, are in the habit of dividing their orders among two or three brokers,

and that he is in all probability dealing in direct competition with one or more rival firms of brokers in securities of this type. Indeed, whether or not a broker has reason to suspect that he is transacting business which forms a portion of a divided order, he should at all times do his business with as much care, and advise it to his client with as much promptitude, as if he were working in the keenest competition.

The market in bank shares is at all times an uncomfortably narrow one, and it is hedged in by special legislative enactments. As anything like speculative activity in bank shares might readily induce a run upon the bank whose shares were unfavourably influenced by nothing more serious than a weak speculative "bull account," speculative dealings in the shares of these institutions is prohibited by an Act of Parliament which is known as the Leman Act. To prevent "bear" sales and consequent possible detriment to a bank's credit, the Leman Act enacts that every seller of bank shares shall declare to the buyer at the time the bargain is entered into, the numbers on the share register of the shares which he is selling. This provision of the Leman Act is too often overlooked by brokers, and the solidity of our banking institutions begets carelessness in this matter. But the law is definite as to the necessity of a seller of bank shares stating the numbers of the shares in which he has dealt, and a prudent broker will always comply with this regulation. We need scarcely refer to the large liability attaching to the majority of bank shares, and

this liability, in times of panic, may one day place a stockbroker in a very awkward position, if it should be proved that he sold shares on a client's behalf without strictly complying with the terms of the Lemman Act. In the shares of many banks the best market either to buy or to sell shares is often at the office of the bank itself. So, too, in the case of most provincial banks, the freest market is in the district in which the bank carries on its business; and, as a rule, in the shares of country banks, a London broker will do his business more advantageously through a local stockbroker than he will by putting himself in the hands of a London jobber.

In the same way, the coupon-paying houses of the various Foreign Loans, and the London agents for the different American Railways, will often be found to be the real market in Foreign Bonds and in Yankee Railroad Bonds, and the names of these firms can also readily be obtained from the standard books of reference. Although there is quite frequently a better market "outside" than "inside" the "House" in such stocks as these, it does not follow that it is invariably to a client's advantage that a broker should deal outside the Stock Exchange market. For, in some instances, a firm of jobbers may have "over-applied for" a new issue—that is to say, in anticipation of a brisk investment demand, they may have underwritten the new issue of a Colonial Loan more freely than was quite discreet, and this brisk investment demand may never have set in. Consequently the dealers in the market may find themselves

what is termed "stale bulls" of the stock for which they applied, and they may be eager enough to clean down their books and to get rid of stock which they are tired of nursing at a price below that at which the House of Issue itself may be sellers of the same security. Therefore, although a broker should always satisfy himself that he cannot do better "outside," it by no means follows that it may not be to his client's advantage to deal "inside" the Stock Exchange after all.

Coming down a little lower in the scale of investments, there are the various issues of Scotch Railway Preferences and Debentures. In these there is often a better and a freer market in Edinburgh and Glasgow than there is in London, and a telegram to a leading broker on either of these Scotch Stock Exchanges will at times result in a London broker dealing on much better terms than he could in his own market. Indeed, did he put himself in the hands of a London jobber, the jobber, in all probability, would do no more than telegraph to Scotland, and then charge the broker, who was stupid enough to employ him as an intermediary, a handsome profit for performing a very small service.

Then, in Industrial Issues there is a great field for a broker to exercise discrimination. The principal market for the debentures and shares of many textile companies is in Manchester. Liverpool was the centre of the insurance world for many years, and was the cradle of the insurance industry; in Liverpool also there is the freest market in the debentures and shares of a number of steamship companies. Leeds

is the best market for some engineering issues, and for various Yorkshire textile companies' stocks. Motor and bicycle manufacturing companies are freely dealt in on both the Birmingham and Dublin Stock Exchanges.

These are but a few typical instances in which the "market" is not in London, and to arrive at an intimate knowledge of the various specialities which are dealt in at the different centres of provincial stockbroking, the money articles of the leading provincial newspapers should be closely studied. These papers can always be seen free of charge at the excellent reading-room in the Guildhall Library, Basinghall Street, which is close to the Stock Exchange.

The shares of the principal provincial banks can also almost always be dealt in more advantageously at their local centre than in London. Moreover, in dealing in the shares of banks, insurance companies, and other concerns in which there is at no time a very free market in the "House," a broker will always be well advised to interview the company's secretary at his office, or to write to him, if his office is not handy to the Stock Exchange, and inquire whether any of his directors or shareholders happen to have business in his company's stock. From sheer laziness, the great body of stockbrokers lean much too much upon the jobber. At times the jobber is a necessity, at other times he is a great convenience, but he is also a serious additional expense in every stockbroking transaction, and his services should not be enlisted by the broker in the absurdly unnecessary

way in which they too often are by the great majority of the brokers on the London Stock Exchange. Nearly one-half the business done by brokers with jobbers on the London Stock Exchange could be transacted by the broker without any such intermediary, if the broker would only display a little more intelligent energy on his client's behalf.

Last of all, we come to the Mining Market, and of all markets perhaps the Mining Market requires the most study to arrive at its "inside hang." Not only so, but the mining industry is undoubtedly the least conservative of all industries, and the "inside hang" of almost any concern in this market is subject to sudden changes on a new group of financiers ousting the old "control" and obtaining sufficient proxy power to bring the concern under the management of a fresh financial combination. Besides this, it is important to remember that behind the Mining Market are to be found both the extremes of wealth and the extremes of squalor among the controlling financial cliques. It never pays a stockbroker to deal with a firm of doubtful credit for the sake of obtaining a small advantage in price. Therefore in the Mining Market, above all others, a clever stockbroker will keenly study the reports of company meetings to detect any alteration in the *personnel* of the directorate of the various concerns, as such changes are generally the outward sign that a new clique has assumed the control of the property concerned. Beyond this there is the stability and the integrity of the controlling House to be considered, and this is a difficult matter to discuss in

theory. Here again, however, a stockbroker can only acquire knowledge laboriously, and it is principally from regularly reading the Law Reports that he will obtain a knowledge of, at any rate, what firms to avoid doing business with. For the rest, it is a good broad rule, to which the exceptions are so few as to be not worth considering, that if the control of a mine is in the hands of a circularising "outside" group of so-called stockbrokers or dealers, then that property should be studiously avoided. The "bucket-shop" fraternity, as these "outside" touting dealers are termed, only control mining properties of the most doubtful antecedents, and the directors of such companies are little better than puppets in the hands of the not too scrupulous practitioners who by every known artifice seek to lure the unsuspecting public into purchasing their rubbish shares. In no circumstances and for no apparent advantage in price is it ever worth a stockbroker's while to deal direct with an advertising share-pushing firm of this description, for that way lie endless disputes and a possible repudiation of the whole transaction by the circularising gentry, whose self-laudatory literature is distributed broadcast throughout the land. If a broker receives an order in a mining share under such control, it is at all times his cheapest and best plan to deal with a responsible jobber in the market rather than incur unknown risks "outside."

In the Mining Market, then, it is necessary for the broker not only to acquire a sound general view of the financial position of as many mines as possible, but also to get a good grasp of the ramifications of

the various controlling cliques, together with some knowledge of their past financial records. All this requires acute observation in the market and a close perusal of the reports of company meetings, as well as some study of the advertisements and circulars of the "bucket-shop" touts. At times, too, a novice will do well to remember that market appearances are occasionally deceptive. It may happen that, owing to the margin having run off a banker's loan against some mining security, the broker to the bank may have employed some jobber other than the usual jobber to the "shop" to market a large parcel of shares. Until this operation has been completed, the jobber who holds such a selling limit will appear to be the market centre, and may be easily mistaken for the "shop." Similarly, on the death of a large shareholder, his executors may have a large number of shares to realise, and, for a time, their operation may throw the "shop" transactions into the shade, and so impress a novice with a false idea of the "shop's" identity.

CHAPTER V

THE MARKETS OF THE LONDON STOCK EXCHANGE

Meanings of the term "Market"—The Consol Market—Marking Bargains—The Trunk Market—The Yankee Market—The Eastern Market—The Brighton Market—The "Heavy" Market—The "Pref." and "Deb." Market—The Information to be acquired in the Name Room—The Miscellaneous Market—The South American Railway Market—The Foreign Market—The Mining Market.

IN the preceding chapter it has been explained that the real market in a great many bonds and shares lies outside the Stock Exchange, but even in such securities as these, there is a market of a sort inside the "House" itself. Inside the "House" also are to be found markets for a great number of securities which can only be dealt in most disadvantageously outside. In the language of the Stock Exchange the term "market" has several meanings. It means, to begin with, that portion of the Stock Exchange floor which is habitually occupied by a body of dealers or jobbers who deal in a particular group of securities. This is its geographical meaning. And in this sense such expressions as the Consol Market, the Kaffir Market, the Yankee Market, and the like, convey a sense of

locality. For instance—"I saw him in the Consol Market five minutes ago"—suggests at once the definite portion of the Stock Exchange building where Consols are dealt in. Beyond this, the expression "market" is used collectively, in such phrases as—"the Consol Market are all short of stock for the January account,"—to embrace the dealers in a certain group of stocks. Further, the term "market" is used, as has been already explained, to denote the individual jobber, or firm of jobbers, habitually dealing for the controlling House in a certain security. In this sense it is employed in such sentences as—"So-and-so is the market in East Rands."

We will first consider the markets geographically. Now, the western end of the "House" is the oldest part of the building, and not only is it the oldest, but at the western end the most important business of the Stock Exchange is transacted. At this end of the building the Weekly Return of the Bank of England is posted up every Thursday; further, the daily records of the movement of bullion either into or out of the Bank of England are here exhibited; and in this portion of the "House" are displayed what are called the Marking Boards. On these are recorded the bargains which are "marked," as it is termed, and which are finally published in the *Stock Exchange Daily Official List* each evening. Here also is situated the Consol Market, which embraces not only the market in the Government Loans of the United Kingdom, but also the market in the Municipal Loans of the various local bodies, the

Indian Loans, and the Colonial Loans. It is here, too, that the official notification of an alteration in the Bank of England's minimum rate of discount is posted up. In fact, that portion of the "House" upon which the Capel Court door immediately opens may be termed the "money" corner of the Stock Exchange.

The Money Market is the king of all markets, and dominates every other market in the Stock Exchange. The Money Market also has a tremendous controlling influence over the Produce Markets, which are situated in Mark Lane, Mincing Lane, and the Baltic Sale Rooms in Threadneedle Street. At times, money may be so plentiful that its influence on Stock Exchange markets is temporarily almost forgotten; or, at other times, such may be the momentum of speculative activity, that markets may appear to be strong enough to move in the teeth of the Money Market. But money is always king of Throgmorton Street, and a scarcity of money will knock the bottom out of the most vigorous "boom." Therefore, until a man has learnt to read the significance of the various items of information as to the movements of Money which are officially set forth in the Consol Market, he can never arrive at a sound opinion of the general trend of the prices of Stock Exchange securities. It will, of course, be understood that the Money Market is no part of the Stock Exchange, but exists outside. The centre of the Money Market is the Bank of England. We shall discuss the Bank of England Weekly Return in a later chapter, and at the same time endeavour to expound the broad features of

the Money Market; at present we are engaged in surveying the markets as they are to be found on the ground-plan of the Stock Exchange.

Before quitting the Consol Market, we must draw particular attention to the importance of the operation called "marking" bargains, which is performed in this market. Now, it cannot be too repeatedly impressed upon a man at the opening of his Stock Exchange career, that success as a stockbroker almost entirely depends upon the amount of confidence which clients learn to place in their broker's ability and integrity, and there is no greater safeguard to a broker, and nothing so completely satisfies a client of the actuality of a transaction, as a record of a bargain appearing in the *Stock Exchange Official List*. Moreover, before he attains his membership, and before he launches forth into business on his own account, an authorised clerk, as a matter of duty to his principal, should acquire the habit of always "marking" his bargains whenever possible. Bargains can only be "marked" in such securities as are quoted in the *Official List*, but all bargains in such stocks as are so quoted should be invariably "marked." The only clerk who is really priceless in a stockbroker's office is the clerk who never involves his principal in a dispute with a client. Nothing soothes a client so completely as seeing the price at which his contract is returned to him duly quoted officially. For this reason all bargains should be systematically marked. Also, there is a deep-rooted conviction in the mind of almost every stockbroker, that he is a far cleverer hand at the game than his own authorised clerk. This conviction is

often entirely erroneous ; but as this idea is almost an article of faith with all brokers, a prudent authorised clerk should always "mark" his own bargains. This simple act greatly reduces the chance of an authorised clerk's having his dealing called in question by a client, and consequently "marking" bargains does to some extent eliminate the risk of his employer's too strongly cherishing the belief that, when he entrusts the work of "dealing" to his clerk, something is sure to go wrong.

A bargain is "marked" by one of the two parties to the deal filling in one of the small printed slips which are kept for the purpose in boxes at the foot of the Marking Boards. The stock and the price at which it changed hands are filled in and signed by either of the two firms which did the deal. The slip is then handed in to the clerk in charge of the Marking Boards, and it is the duty of this official to record on the Marking Board the price given to him upon the slip. These Marking Board records are, at the end of the day, reproduced in the *Official List*. Although the manner of "marking" a bargain is so simple, there are quite a number of brokers who scarcely take the trouble to "mark" a bargain from one year's end to another. It is a matter in which there is no compulsion ; but a wise broker makes it a rule to "mark," whenever possible, merely as a means of satisfying his client as to the correctness of his contract price. Do not let a youngster make the fatal mistake of omitting to "mark" a bargain because markets are idle and listless, and because there is scarcely a ripple on the waters of the Stock Exchange.

It must be remembered that it is the thunderbolt from a blue sky that produces the most disastrous effects on a market. It is the unexpected political event or some other unlooked-for catastrophe that sets Stock Exchange prices reeling with weakness. No matter how steadily the financial barometer may point to "set fair," it is almost more imperative to "mark" business in times of perfect calm than it is in times of nervous apprehension. For the Stock Exchange sky clouds over with a tropical suddenness, and it is only the "marking" of a bargain at the time it is done which ensures the "mark" appearing in its right sequence on the Board, and finally in the printed *Official List*. A "mark" which is recorded an hour or two after the deal took place, has at times the awkward distinction of appearing sandwiched in between two other "marks" both of which are perhaps a half per cent. above or a half per cent. below the price of the bargain so "marked" out of its proper time. It need hardly be said that, in such circumstances, the "marked" bargain, instead of mollifying the client, has a tendency rather to set him wondering whether his broker is a knave or a fool. The golden rule, then, is to mark all bargains methodically, immediately the telegraphic advice of the business done has been despatched to the client. This is a habit which is easy to acquire, and it is a perennial comfort to a broker throughout his business career.

The habit of "marking" bargains also protects a broker from being involved in disputes with his client by the extraordinary vagaries of which the "Tape"

is at times guilty. What a much aggrieved broker once bitterly termed the "jagged irresponsibility" of the "Tape" is a perpetual source of dispute between broker and client. Not only does the uncertainty of the "Tape" involve London brokers in quite groundless quarrels with their clients, but the provincial stockbroker suffers equally in this matter with *his* clients. The "Tape" urgently needs reform in the interest both of broker and client. We shall deal with the "Tape" question at greater length later in this book.

Let us now quit the Consol Market and turn our attention to the other markets of the "House." Standing with our back to the Capel Court door of the Stock Exchange, and looking eastward, we find that on the left-hand side of the Consol Market is the Trunk Market, which at one time was one of the most popular speculative markets in the Stock Exchange. In the old days, when the popularity of the Grand Trunk Railway of Canada as a speculative medium was at its zenith, what battles between "bull" and "bear" were fought round the pillar which rears itself up in the Trunk Market! What ingenious pamphlets were indited by the "bear" to prove that the upkeep of the permanent way, the stability of the bridges, and the condition of the rolling-stock were all in such a parlous state that nothing short of the heroic expenditure of millions could possibly keep the railway running for another year! And how fiercely prophetic were the answering "bull" pamphlets which foresaw in Canada the grazing land and the granary of the world, and such a volume of traffic as

would replenish to repletion the empty coffers of the Company! Then came the building of the Canadian Pacific Railway; and though the "bull" pamphleteer's visions have been justified by facts, yet the lion's share of Canada's prosperity has fallen into the lap of Grand Trunk's younger rival. Not only so, but the permanent nature of the Johannesburg Main Reef and the money which the public have made in Kaffirs have knocked the speculative activity out of Trunks and Brighton A and the other popular speculative mediums of the past. So that, in these days, in spite of the enhanced prosperity of the Grand Trunk, of Yankee Railroads, and of the Brighton Line, these erst-while fashionable gambles entice the public no longer; for the public interest is now all concentrated upon out-crops, deep levels, true banket reef formations, and other jargon of the mining engineer.

On the left-hand side of the Trunk Market, and yet further eastwards, lies the Yankee Market, and in these days the interest of the United Kingdom in American Railroads is but a small one. The pushful Yankee may assert that his railway stocks have crystallised into the respectability of investment securities, and are gradually and steadily emerging into the condition of well-held dividend-paying investments; but with a strong belief in the resourcefulness of the American character, and with every acknowledgment of the permanance of much of America's material prosperity, we have great doubts whether the level of prices at which the shares in American Railways stood at the beginning of 1903 will not ultimately prove to be a level which was

achieved by market-manipulation on the part of the Wall Street "bosses."

On the right-hand side of the Yankee Market the point of view still being that of a spectator with his back to Capel Court door, is the Eastern Market. The Eastern Market is so called after the Great Eastern Railway, which is the principal stock dealt in in this market. Here also the stocks of the North British Railway and of the Hull and Barnsley Railway find their market. Beyond the Eastern Market lies the Brighton Market, in which the stocks of the London, Brighton, and South Coast Railway, the South-Eastern and Chatham Railways, the Metropolitan Railway, the District Railway, the Great Central Railway, and the Caledonian Railway are dealt in. Further eastward still lies the "Heavy" Market, in which the principal securities are the stocks of the North-Western, the Midland, the North-Eastern and the Great Western, and the London and South-Western Railways. In these markets the Ordinary Stocks of the railways of Great Britain are dealt in; there is practically no market in London for the stocks of the Irish Railways, which can only be dealt in either in Dublin or Belfast.

Before taking leave of the British Railways, we will attempt to describe the method of dealing in their Debenture and Preference Stocks. For the "Pref." and "Deb." Market, as it is called, is a study in itself. To begin with, unlike the dealers in all other markets, the "Pref." and "Deb." jobbers do not stand together in a bunch, but they live curious secluded lives, dotted about the fringes of other markets. The "House"

jocularly explains this peculiarity of the "Pref." and "Deb." men by affirming that so enormous are the "turns" which these dealers exact from the unwary broker, that they are actually ashamed to look one another in the face, and that consequently they all stand as far apart from one another as possible. At least it is certainly true that in no other class of securities is the margin so wide between the selling price and the buying price as it is in the Preference and Debenture Stocks of English Railways. And not only is this the case, but it is equally true that there is no more valued type of client than the client who does business in stocks of such gilt-edged respectability as "Prefs." and "Debs." Also no type of client studies the *Stock Exchange Official List* so microscopically as does the type which deals in stocks of this weight and calibre. Indeed, transactions in these stocks are almost invariably on behalf of men of large wealth; and it is a Stock Exchange axiom that the greater the wealth of the client, the greater is his tendency to find fault with his broker.

In dealing in English Railway Preference and Debenture Stocks, then, it behoves a broker to walk most warily. It is a market in which competition amongst the dealers is at the minimum, and it is a market which is affected by the most irritable, and yet the most valuable, of clients. In order to deal successfully in these stocks in the future, a lad must, as soon as ever he is admitted as a clerk to the settling-rooms of the Stock Exchange, begin to exercise his own powers of memory and observation. In the settling-rooms he will see the names of certain

brokers habitually passing on tickets as paying for investment stocks of this class. Such brokers as these are the cream of the stockbroking fraternity, their *clientèle* lying among bankers, solicitors who are acting for deceased estates, insurance companies, and such clients as deal in the choicest of stocks. An embryo stockbroker, by taking note of these brokers' names in the idle intervals, of which there are always plenty early on Ticket Day in the settlement-rooms, will rapidly inform himself as to which firms habitually deal in these stocks. Instead, then, of delivering his client over to the tender mercies of the jobbers in the "Pref." and "Deb." Market, he will at least know the names of some twenty brokers who regularly deal in securities of this class, and by "trying them" first, he will frequently deal at an enormous advantage, to the complete exclusion of the jobber.

In justice to the "Pref." and "Deb." dealers, it is only fair to say that the transfer stamps and fees on such heavy-weight stocks as they deal in are a serious item, and when dealers, as they occasionally do, buy stock outright and hold it for two or three accounts, it is only right that their profit should recompense them for the money which they have lain out of for a time, and for the stamps and fees for which they have paid. But such transactions as these in "Pref." and "Deb." are exceptional; the jobber does not, as a rule, buy stock outright; he acts rather as a middleman in a negotiation between two brokers; and without, perhaps, ever having the stock upon his book or paying a single sixpence in stamps and fees, it is his

voracious custom to charge for his services as if he had been to the trouble and the expense of buying the stock outright and of registering it in his name. From systematic plunder such as this it is obviously the duty of the broker to protect his client by every means in his power.

Beyond his own observation in the Name Room, it is well for a stockbroker to acquaint himself with the *personnel* of the different Boards of Directors of the leading English railways, for he will find that there are various territorial magnates who act as railway directors, and these directors are frequently either buyers or sellers of their own company's Preferences and Debentures. Their orders are usually given to leading firms in their nearest large provincial Stock Exchange. In this way it frequently arises that such heavy-weight stocks as these can be more advantageously dealt in either in Leeds, Liverpool, Manchester, Newcastle, or Glasgow, than in the London Stock Exchange itself. Like every other art, the art of stockbroking largely consists of a capacity for taking infinite pains, and the sooner a youth who intends to make stockbroking his career disabuses himself of the popular notion, that a stockbroker's life is one of happy-go-lucky, slap-dash irresponsibility, the sooner is he likely to develop into a really clever stockbroker. At the outset of his career he should begin systematically to store up knowledge in the Name Room.

While we are upon the subject of the valuable information which a novice may acquire in the Name Room, we may say that what is true of the "Pref." and "Deb." Market is equally true of all markets. In the

Name Room, at each settlement, is revealed the identity of the firms who are paying for the real stock which is passing. And familiarity with the names into which stock is to be transferred forms a most useful guide as to who are the actual "shop" in every variety of registered stock, and also as to which stockbroking firm is entrusted with the "shop" orders. We have already shown that an accurate knowledge of who is the actual "shop" in any security is, as a rule, the key to clever dealing in that particular stock, and a mass of information on this important point is on every Name Day placed in the hands of the clerks in the Settlement Room. And yet our experience is that not one clerk in a hundred takes any trouble to avail himself of the gratuitous information so distributed. It may be acknowledged that this information is greatly confused by the names of bankers' nominees being passed for stock in which the bank in question has no closer interest than that it is employing its floating funds in short loans to the Stock Exchange. But it requires no great effort of memory rapidly to learn the names of these bankers' nominees, and to disregard them as simply indicative of loan-transactions. Having winnowed out these bankers' names as merely chaff, grains of very solid information as to the identity of the various controlling Houses, and of the brokers they usually employ, will remain behind.

Resuming the description of the geographical position of markets in the "House," we find the Miscellaneous Market upon the right-hand side of the "Heavy" Railway Market and a little further to the

east. Of recent years the Miscellaneous Market has grown enormously, for it is in this market that the various Industrial Stocks are dealt in, and the tendency to convert home industries into Joint Stock Companies has received a tremendous impetus during the last ten or fifteen years. Here is to be found the market in Brewery Companies, in Cycle Companies, in Cold Storage and Meat-Supply Concerns, in Catering Companies, in Manufacturing Concerns of all kinds, in Drapery businesses, in Electric Supply Companies, in Telephone and Telegraph Companies, in Amusement Ventures, in Armament and Shipbuilding Companies, in Iron, Steel, and Colliery Companies. Neither does the Miscellaneous Market by any means confine its attention to home "Industrials," for in this market we find the Indian Tea-plantations shares, together with the Timber Companies of the East and Hudson's Bays. It takes much close observation to know which particular firm of dealers to approach in each individual one of this curious medley of securities, and moreover in many of the stocks dealt in in this market there is a better and a freer market in the provinces.

It is particularly in his dealings in the Miscellaneous Market that the leading provincial daily papers afford a stockbroker such valuable information as to the local centres in which the real market in so many of these stocks lies. An ordinarily observant man reading the files of the country papers will there find in which provincial Stock Exchanges the various industrial concerns are most freely dealt in. The principal provincial Stock Exchanges are Manchester, Liverpool, Glasgow, Leeds, Birmingham, Edinburgh, Newcastle,

Dublin, and Belfast. I have intentionally placed Glasgow third in this list; I am aware that Glasgow claims to rank next in importance to London as a Stock Exchange centre, but I think that this claim is based rather upon the ardent patriotism of Scottish assertion than upon actual fact. There is no doubt that, as the centre of the British iron market, Glasgow quotations are the key to the market in pig-iron throughout the United Kingdom, and Glasgow's very pre-eminence in iron has diverted much of that city's speculative attention to the "futures" of "pigs," to the detriment of her Stock Exchange. At first sight it may strike a novice as somewhat inexplicable to find that the market in the majority of the English-owned Indian tea-plantations lies in Glasgow, but much of our Eastern commercial empire was built up by the Scots. Our large Eastern Banks, too, are indebted to Scotland for most of their directors and managers; the market in the shares of these institutions, however, centres in London and not in Glasgow.

As we now approach the east end of the Stock Exchange, we come upon the South American Railway Market. At one time the Preference issues and the Ordinary stock of the Mexican Railway divided with Grand Trunks and Brighton A the honour of being the most highly speculative stocks in the Stock Exchange. And of the three, certainly the most mercurial was the Mexican Railway. For, in addition to the fluctuations inevitable in the earnings of a company serving a sparsely inhabited country, the Mexican Railway enjoyed the unpleasant privilege of sympathising with all the wild fluctuations of the silver

market; for the railway received its earnings in the Mexican currency, which is silver, and had to convert this silver into gold for the purpose of remitting dividends to its English shareholders. So that the fat traffics of a prosperous half-year were frequently swept away by a sudden collapse of the silver market. Consequently, a more volatile market than was that of Mexican Rails has never been seen in the Stock Exchange. As if this were not enough, it occurred to an ingenious clique of "bull" operators to swell the traffics for a period, by loading half a dozen trains with sand ballast, and solemnly paying for their being industriously shunted week after week from one end of the railway system to the other—the railway freight expended on this bogus traffic being a mere bagatelle compared with the enormous profit which this much too clever division raked in over their "bull" commitments on the London Stock Exchange. With the apparently permanent and hopeless collapse in the value of silver, the potentialities of the Mexican Railway have in these days shrunk to dreary and humdrum pettiness, and so another at one time fashionable gambling counter has lost its attraction for the speculative public.

The market in the railways of Uruguay and of the Argentine are also situated in the east end of the "House." Since the Baring collapse, there has been only a small speculative account open at any time in these stocks. The Manchester merchants, who do a fair trade with these two republics in cotton goods, and the Liverpool shipowners, who have a large share of their carrying trade, have both done well by buying

stocks in the River Plate railways and holding them as investments, for both these republics have recently attained to very fair material prosperity.

The Foreign Market comes next, and in this market are handled the bonds of the various Foreign Governments throughout the world—with the solitary exception of the United State Loans; these are scarcely ever dealt in on this side, the few orders that are received to buy or sell the bonds being executed through the arbitrage firms, which deal telegraphically with New York in American Railroads. The Foreign Market is another market which is but a shadow of its former self. The fact is that England, wisely perhaps, has ceased to take any but the most slender interest in the State Loans of foreign countries. When it seemed good to Germany and France to enter into rivalry for control of this market, London, by no means reluctantly, unloaded upon Berlin and Paris. And at these two centres, assisted in a small measure by Amsterdam, the bulk of the world's State Loans are at present carried. This fact has no doubt made for peace on the Continent. But exactly what the outcome will be of the next great European War it is somewhat difficult to see. With France and Germany exhausted by conflict, and with some of the minor Powers hopelessly crippled financially by their share in the conflagration, the state of affairs in the banking world and in the Bourse circles of Paris and Berlin promises to be unparalleled in financial history.

Then, last of all and most easterly, lies the Mining Market, with its doors opening out upon Broad Street on the south and upon Throgmorton

Street on the north. The Mining Market is divided into four main departments—the South African Market, the Australian Market, the West African Market, and the miscellaneous or “little” Mining Market, as it is called, owing to the number of rubbish shares in which it deals; the prices of these “little” shares vary between threepence and any point to which the efforts of various energetic wirepullers can temporarily hoist them. In the “little” Mining Market, however, is situated the market in the highly-priced and well-managed mines of the Colar district in India. With the Mining Market and its methods we shall deal somewhat exhaustively in the next chapter, in which we shall endeavour to explain the system of “making a market” on the Stock Exchange, for in this species of financial handicraft the Mining Market surpasses all others both in dexterity and celerity, though it is true that, at times, the permanence of the work so executed leaves much to be desired.

CHAPTER VI

MAKING A MARKET

Two Essentials of a speculative Transaction—Danger of New Issues — Prospectusless Companies — The Committee's Responsibility—Misuse of the "Tape"—"Rigging a Market."

THE whole system of Stock Exchange speculation is based upon the fact that the average investor is, as a rule, a somewhat slow-witted person. The speculator professes to be—and indeed, to be successful, the speculator must be—more quick of perception than the investor. All sound speculation is contingent upon the certainty, or at least upon the very strong probability, that the same merits or demerits which a speculator can see in a stock to-day will be revealed to-morrow or at an early future date to the investor, causing him either to come into the market to purchase the stock in question, or else to rush to realise his holding in it. The first step in any speculative operation is the intelligent consideration of what will be the inevitable result upon the mind of the investor if certain contingencies arise in connection with any particular stock. If it is, humanly speaking, certain that on

a given event's taking place the investor will either buy or sell a particular stock, the next consideration is, how great are the probabilities that the event in question will actually happen? Only in the case when the real investor will be influenced by a future event can a speculative transaction be termed a sound one, and then only if the future event upon which the action of the investor depends is more than strongly probable. A speculative transaction which is built upon such a slender foundation as the probability that another crowd of speculators will come into the market and relieve the original speculative purchasers of their load, is manifestly unsound. The only test of speculative soundness is the question how far a speculator is justified in anticipating that in a reasonably short time the investor will be anxious to follow in the present footsteps of the speculator. Intelligent anticipation of the immediate future action of the investor is the key to all sound speculation. Unless a speculator can reasonably hope that the investor, in the immediate future, will endorse the view which the speculator elects to take of any security, the speculator is working upon an unsound basis. The last word in a speculative transaction unquestionably lies with the investor.

We have been somewhat careful to emphasise the necessity of the investor's following the lead of the speculator at no long interval. This is the main essential of a successful speculative transaction. For, should there be an unduly long interval between the purchase of a security by a speculator and the

opportunity of reselling it on an investment demand arising, it will be found that the interest upon the money which the speculator will have to borrow to finance the stock which he has speculatively bought will eat up all the profits of the speculation, and perhaps so outweigh the ultimate enhancement of price of the stock bought as to turn what would otherwise have been a moderate profit into an actual loss. The first essential, then, of a successful speculative transaction is a probability that the event upon which the speculation hinges will come rapidly to maturity.

The second essential of a successful speculation is that there should always be a perfectly "free" market in the security selected as a speculative medium. By a "free" market is meant a market in which it is always possible either to buy or to sell stock with perfect freedom in normal times, and a market which, even in moments of semi-panic, does not "dry up" altogether. So important is this question of a "free" market considered to be by men who have devoted much study to the speculative side of Stock Exchange dealings, that some of the cleverest modern speculators in no circumstances will allow themselves ever to be tempted into a speculative transaction in any stock which does not figure in the Official List of the stocks included in the operations of the Stock Exchange Clearing House. It need scarcely be explained that the services of the Clearing House are only requisite in the cases of those stocks in which there is a large turn-over every account. The Stock Exchange Clearing House

List becomes, then, a rough-and-ready index to the "freedom" of any market, and a stock which figures in this list may be regarded as a safe speculative medium, so far, at least, as its negotiability is concerned. It may certainly be admitted that successful speculative coups are frequently made in stocks outside the charmed circle of the Clearing House, but, on the other hand, the enormous speculative losses which the public make at times on the Stock Exchange are in no small measure due to a market "drying up" quite suddenly. The curse of the amateur speculator is the fatal facility with which he can be swayed in his operations by gossip at his club, by casual conversations in railway journeys, and by not too disinterested "tips" scattered broadcast at times by various financial writers. A more haphazard creature than the average speculator does not exist. And it is the custom of this haphazard being, whose imagination is suddenly fired by some absurd *canard*, to fling himself into his broker's office and to consult him as to the advisability of a certain speculative course of action. At a crisis of this kind, a stockbroker who can explain that the proposed operation is in such a narrow market as to be not worth the attention of the Stock Exchange Clearing House, is at least in a position to warn his client that he is sailing perilously close to the quicksands of unnegotiability. The history of the Stock Exchange simply bristles with the shipwrecks of speculators who have chosen to neglect the two great essentials of, first, a rapidly maturing event, and, secondly, a perfectly negotiable security.

Perhaps the most convincing example of the reality of these two essentials was furnished by the fate of a singularly far-sighted and brilliant speculator, who came to irretrievable grief over the purchase of Canadian land. Now, this speculative purchase of land has since been in every way justified by the development of Canada. The speculator's view was perfectly correct, but he was nevertheless ruined by the fact that his Canadian agricultural property was too slow in maturing in value, and that it was, moreover, a most awkwardly unnegotiable asset to handle. Yet this speculator had the foresight to anticipate the building of the Canadian Pacific Railway years before the project took practical shape, and he was also correct in his belief in the future of Canada as one of the world's great grain-producing centres; not only so, but his intimate knowledge of Canada's potentialities as a copper-producing country has since been largely verified. In every way his speculative purchase of vast tracts of Canadian land has since been amply justified by history, and yet this far-seeing operator died practically a ruined man, the expense of financing his purchase of an immature and unnegotiable security over a lengthy term of years having proved too great for his financial resources. In this fashion a large fortune was frittered away—a fortune which this talented financier had steadily accumulated so long as he was content to employ his genius on the mature and on the negotiable, but a fortune which melted like snow when he ventured to neglect these two essentials of successful speculation.

The whole system of "making a market" on the Stock Exchange in a new issue of stock is based on the desire to create an appearance of negotiability in any freshly introduced security. To this end, the Company-Promoters, or the House of Issue standing behind a new venture, will exert themselves in every possible way to create an appearance of market activity in the stock which they are introducing to public attention. Taking it broadly, it may be unhesitatingly asserted that it never pays one of the general public to apply for the issue of stock on the flotation of a company. We are well aware of the solid advantages which have accrued to the original applicants for stock in Guinness's Brewery, to quote one of the most successful of modern issues, but it must be remembered that, in a flotation of that description, the allotments to the Man in the Street amount to but a very small proportion of the quantity for which he applies, even if, indeed, his application is not met with a polite Letter of Regret. Therefore, in a really sound concern, the public applicant finds that he receives no allotment, whereas in a company of doubtful prospects he is only too likely to receive an allotment "in full." If only for this reason, we are convinced that the wise speculator will never allow himself to commit the folly of filling in an application form for a new issue.

Besides this, it must always be remembered that prospectuses are drawn up in a somewhat sanguine spirit. Company-Promoters, when inditing a prospectus, approach their subject with the not unnatural intention of painting it in the brightest possible

colours; difficulties are smoothed over or possibly not even alluded to. Prospectus promises, however, are proverbially seldom fulfilled to the letter. These are the risks to which an applicant for shares is exposed, by a prospectus drawn with as much honesty as to give shareholders who applied for shares on the strength of its statements no reasonable pretext for demanding a return of their subscriptions in a Court of Law. Besides this, there is, of course, the case of the flatly fraudulent prospectus, when shareholders have a legal remedy against deliberate misstatements made by the Company-Promoter. But the legal remedy is a very expensive one, and in many cases the shareholder only recovers in the end a sorry fraction of the money he originally subscribed. These are the risks which beset the original applicant for shares in a company which is floated, as every company should be, with a prospectus duly setting forth a statement of the assets it is proposed to acquire, and disclosing, or at least referring to, contracts entered into on behalf of intending subscribers, and formally committing the future directors of the new company to a series of statements of fact for which they accept responsibility. Even when a company is introduced to the public in this perfectly orthodox manner, so slender is the chance of obtaining an allotment in a really first-class concern, and so enormous is the corresponding risk of receiving an allotment in full in some financial fiasco, that he is a wise man who registers a vow, and keeps it, never to fill in an application form for stock in a new venture.

MAKING A MARKET

As for companies which are smuggled on to the Stock Exchange without their authors committing themselves to the responsibility of definite prospectus statements, no man who has the best interests of the Stock Exchange at heart can view with unconcern the unchecked growth of this abuse. There is no greater blot on the escutcheon of the "House" than its toleration of the prospectusless company, and it is regrettable to have to chronicle the fact that each year sees a further extension of this rotten and wholly indefensible system of company flotation. The fact is that the company-promoting clique is small, rich, and unscrupulous, while the investor is completely lacking in any sort of organisation in his own self-defence. Instead, however, of the Stock Exchange Committee exercising their despotic power in the purification of financial methods and in defence of the poor plundered shareholder, they appear to be content to sit quietly by and to allow the prospectusless company to be used as a means of shamelessly bleeding the defenceless public.

When the public do "come on the feed" in real earnest, their gullibility is astounding. All sense of discrimination, the commonest dictates of prudence, and all power of analysis are immediately thrown to the winds, and this moment of mania is the Company-Promoters' opportunity. For the public never grow wiser. Mr. Twentieth-Century Brown in his villa at Clapham may smile superciliously over the follies of his forefathers during the South Sea mania, but this historical object-lesson in the folly of investors is nevertheless absolutely wasted upon him. For the

mad delirium of the "Jungle Boom" presently seizes upon Throgmorton Street, even as the South Sea bubble intoxicated the frequenters of Change Alley, and then, in spite of his pitying contempt for the victims of the follies of the past, who is so eager to fill in "application forms" for all sorts of West African absurdities as the vastly superior Mr. Twentieth-Century Brown? Against these whirlwinds of public insanity the wisdom of previous Stock Exchange legislators endeavoured to hedge in the too easily deluded public, and to that end they passed Stock Exchange Rule No. 137. This rule, truly, only applies to such companies as may wish to qualify their stocks or shares for quotation in the Official List; but it was a masterly enactment, and if, in view of present abuses, its scope were extended so as to include any company which intends to apply to the Committee for a special settlement, it would be an enormous protection to the general public. If the Committee would then have the courage to declare that all dealings for "the coming out" were illegal, and that they would only recognise the legality of special settlements, appointed by their own authority, in companies which had complied with the enactments of Rule No. 137, the hurried issue of all sorts of immature absurdities during "boom" periods would be rendered largely impossible.

It will perhaps be as well if we pause here to explain the method of settlement in shares which are dealt in for "the coming out." Briefly, this whole system of dealing for "the coming out" is nothing more than a device on the part of the

unscrupulous Promoter by which he takes advantage of the immovable determination of the Committee to defend at all costs the inviolability of the bargain. If a number of bargains on the Stock Exchange can only be "worked" by the ingenuity of the Promoter, a settlement of these bargains must inevitably take place. The Committee may never be approached on the questions of a special settlement or of an official quotation of a security so smuggled on to the Stock Exchange, and the settlement of transactions for "the coming out" may be arranged by the leading jobbers in the market, without reference to the Committee. Indeed, the dates of such settlements are fixed by the simple formality of posting up an unofficial notice, signed by the principal dealers concerned, that the settlement in the shares of So-and-so is fixed for a certain date. In this unofficial fashion these bargains for "the coming out" are settled. Obviously this system puts a premium upon the Promoter endeavouring by every artifice to make such a market on the Stock Exchange in shares of a rotten company as will necessitate the dealers appointing one of these unofficial settlements for the completion of these transactions.

Now, as will readily be seen, if the Stock Exchange Committee would set themselves to stamp out this system of dealing for "the coming out," Company-Promoters would have no alternative, in the case of all new issues, but to apply for an official special settlement. And if the Committee went a little further and widened the scope of Rule 137, so as to make its enactments apply not only to companies

seeking a quotation in the Official List, but also to all companies seeking a special settlement, evidently it would be necessary for all new companies to comply with the demands of this rule, the provisions of which are as follows :—

OFFICIAL QUOTATIONS.

RULE 137. The Committee may order the quotation in the Official List of any class of the Shares or Securities of a new Company, provided—

- (I.) That the Company is of sufficient magnitude and importance :
- (II.) That three days' public notice of the application has been given :
- (III.) That the following documents have been deposited with the Secretary of the Share and Loan Department :—
 - (a) The Prospectus ;
 - (b) The Certificate of Incorporation, Act of Parliament, or other similar document ;
 - (c) The Certificate that the Company is entitled to commence business ;
 - (d) The Articles of Association ;
 - (e) The original applications for Shares or Securities ;
 - (f) The Allotment Book for Shares or Securities, with a Summary signed by the Chairman and Secretary of the Company ;
 - (g) A copy of the Letter of Allotment for Shares or Securities ;
 - (h) A specimen of the Certificate or Bond ;
 - (i) Certified copies of Contracts and Agreements ;
 - (k) Notarially certified translations of Concessions, Deeds and Agreements ;
 - (l) A Certificate, verified by the statutory declaration of the Chairman and Secretary, stating—
 - (1) That the Prospectus complies with the provisions of the Companies Acts ;

- (2) That all documents required by the Companies Acts have been duly filed, and the dates of filing the same ;
- (3) The number of Shares and amount of Securities applied for by and unconditionally allotted to the public, and the distinctive numbers of the same ;
- (4) The number of Shares and amount of Securities allotted in whole or in part for a consideration other than cash, and the distinctive numbers of the same ;
- (5) The amount of deposits paid ;
- (6) That such deposits are absolutely free from any lien ;
- (7) That the Certificates or Bonds are ready for delivery ;
- (8) That the purchase of the properties has been completed, and the purchase-money paid ;
- (9) That no impediment exists to the settlement of the account ;
- (m) The Bankers' Pass Book ;
- (n) A Certificate from the Bankers, stating the amount of deposits received ;
- (o) In the case of an issue of Debentures or Debenture Stock—
 - (1) The Trust Deed, if any ;
 - (2) The Official Certificate of the Registration of the mortgage or charge ;

(IV.) That the Prospectus—

- (a) Shall have been publicly advertised ;
- (b) Agrees substantially with the Act of Parliament or Articles of Association ;
- (c) Provides—
 - (1) For the issue of not less than one-half of the authorised Capital ;
 - (2) For the payment of 10 per cent. upon the amount subscribed ;
- (d) If offering Debentures or Debenture Stocks, however designated or described, states all terms, conditions, and circumstances under which such are or may become redeemable or repayable.

- (V.) That two-thirds of the amount proposed to be issued of any such class of the Shares or Securities (whether such issue be the whole or part of the authorised amount) shall have been applied for by and unconditionally allotted to the public (Shares or Securities reserved or granted in lieu of money payments to concessionaires, owners of property or others, not being considered to form part of such public allotment) :
- (VI.) That the Articles of Association restrain the Directors from employing the funds of the Company in the purchase of, or in loans upon the security of its own Shares :
- (VII.) That every Debenture or Debenture Stock Certificate shall contain the information required in Clause IV. (d) ; and when any of such are allotted to Vendors in lieu of money payments, the Certificates shall be enfaced " issued to Vendors."
- (VIII.) That a Broker, a Member of the Stock Exchange, is authorised to give full information as to the formation of the undertaking, and be able to furnish the Committee with all particulars they may require.

RULE 138. Foreign Companies partly subscribed for and allotted in this country, shall not, unless under special circumstances, be allowed a Quotation in the Official List, until they have been officially quoted in the country to which they belong.

RULE 139. The Committee may order the quotation of Shares or Securities issued to Vendors credited as fully or partly paid, six months after the date fixed for the Special Settlement of the Shares or Securities of the same class subscribed for by the public, provided a quotation for the latter is also granted.

It is evident that, if the issuing house which attempted to introduce a new security to the Stock Exchange were compelled to comply with the formalities and to furnish the Committee with the duly authenticated documents stipulated for in Rule 137, the present

scandalous issue of prospectusless companies, at times when the speculative public are in the grip of an uncontrollable mania, would receive a most desirable check.

It will, perhaps, be urged in some quarters that it is most undesirable in the interests of the members of the Stock Exchange that any curb should be put upon the creation of new Joint Stock enterprises. But we are convinced that nothing is more detrimental to the financial welfare of the members of the Stock Exchange, both as a body and as individuals, than the reckless creation of worthless companies. Each year there is only a certain sum of money at the nation's disposal for the purposes of investment and speculation—this sum varies, of course, with the trading prosperity of the country. If this sum be invested or speculated with wisely, clearly the general public, who are the clients of the Stock Exchange, will remain in possession of their money in years to come, and inevitably it will be turned over and over from time to time in re-investment. It is clearly, then, to the advantage of the Stock Exchange that the general public should prosper in their investments, and it is most detrimental to the interests of the "House" that the Company-Promoters should be allowed to introduce new securities which have undergone no official scrutiny, and many of which turn out to be the veriest rubbish. This is putting the question merely on the ground of the self-interest of the Stock Exchange. Further, it must be remembered that the Stock Exchange does enjoy the privileges of a monopoly, and if public abuses result from such a

monopoly it is inevitable that ultimately a public clamour will arise for the reform of the Stock Exchange as a corporate body. It is always wiser for any institution to reform itself from within rather than to allow itself to fall into the hands of the too zealous outside reformer.

It is probable that the recent dearth of business on the Stock Exchange is due in no small measure to the inroads made by the grasping promoter into the savings of the general public, first, by means of the London and Globe Corporation's system of market-rigging, which caused the loss of something like seven millions sterling to the investing classes of the country ; and, secondly, by means of the money hopelessly locked up in all sorts of worthless West African concerns, many of which were rushed out upon the public during the feverish period of a short-lived "boom." Although it was demonstrated in open court, in the London and Globe inquiry, that various members of the Stock Exchange had united themselves in a syndicate, the sole object of which was to lift the shares of the Lake View Mine to a perfectly artificial level, in the hope of unloading them on the public at a fictitious price, and although it was proved that, to some extent, this syndicate was successful in this discreditable raid on the purses of the public, no inquiry into this scandal was held by the Committee of the Stock Exchange. This neglect of duty was made the more conspicuous by the fact that, not only were the objects of the syndicate directly opposed to the weal of the general public, but also its very constitution was in direct defiance of the Stock Exchange

Committee's own rules. The Committee forbids any partnership to exist between brokers and jobbers, and the Lake View Syndicate was composed indiscriminately both of brokers and jobbers. Further, the Committee forbids members of the Stock Exchange to enter into partnership with non-members, and yet this same syndicate was made up of a medley of brokers, jobbers, and non-members. A more glaring breach of Stock Exchange rules has seldom been perpetrated; and not only was it perpetrated, but it was actually dragged into the light of day in the Bankruptcy Court.

Then, again, in the West African "boom," the public were plundered by a most barefaced orgie of prospectusless companies; these companies were smuggled on to the Stock Exchange, and were dealt in and "rigged" up to preposterous levels, to the great loss of the public who were tempted into these mushroom concerns. There are, no doubt, honest mining properties in West Africa, which in time will become valuable, but it is equally certain that during this artificially engineered "boom" some four hundred absolutely worthless concerns, whose capital amounted to many millions, were foisted upon the public in a fashion that was little creditable to the Stock Exchange. The blame, no doubt, lay largely at the door of avaricious Company-Promoters, but it is indisputable that their efforts would have proved futile, and these companies would have received no public support, had it not been for the complicity of certain members of the Stock Exchange who were instrumental in introducing these worthless creations

to the market inside the "House." In the case of the Lake View Syndicate, again, there was a direct infraction of existing Stock Exchange rules; while in the case of the wholesale flotation of prospectusless West African companies, although there was, perhaps, no distinct breach of the rules as they stand, yet a grave public scandal was created. Yet the Committee took no steps to enforce their rules in the case of the Lake View Syndicate, and they have made no effort to prevent the future possibility of an outrage similar to the "Jungle Boom" being perpetrated upon the not too intelligent financial public. Indeed, grown impudent by the immunity enjoyed in the case of their past misdeeds, the Company-Promoters have opened a fresh campaign in brand new prospectusless mining companies in Egypt. A concerted effort is being made in the Press by Promoters and Promoters' allies on the Stock Exchange, to foist a number of Egyptian mines upon the public at enormous premiums, although little is known of these concerns beyond their mere names. We are, in fact, already being treated to a repetition of the West African scandal.

This apathy of the Committee reacts most unfavourably upon the general prosperity of the "House." The latter part of the year 1902 and the opening months of the year 1903 witnessed a distinct trading revival throughout the kingdom; the substantial increases in the traffic returns of all Home Railways were incontrovertible testimony to this national prosperity, and yet the Stock Exchange, contrary to custom, showed no corresponding return

of business activity. Truly, there were, as always, market fluctuations, but the indifference of the general public to Stock Exchange movements has seldom been so emphatically manifested as it has been during the past twelve months of reviving national prosperity.

The bogus Company-Promoter has also at his disposal a most effective instrument in the shape of the "Tape." The facility with which imaginary quotations may be published by this means is another grave abuse, and one which the Stock Exchange Committee should stamp out without delay. How serious a scandal this may become is shown by the following quotation from the *Financial News* of March 7, 1903 :—

"Seeing that the 'Tape' is managed from within the 'House' by and under the authority of the Stock Exchange Committee, it ought not to be too much to expect that the Committee should exercise some sort of supervision over it. If it had done so during the past week, it could not have failed to notice that on more than one occasion the shares of a wild-cat mining company, registered in Guernsey, the entire paid-up capital of which is £7, have been sent out over the 'Tape' at high premiums. The Exchange Telegraph Company, which owns the 'Tape,' may not have known anything about the concern ; and it must be admitted that the company's officials are usually most careful in such matters ; but the members of the 'House' who supplied the prices must have known a great deal, and the Committee would have no difficulty in ascertaining from them the circumstances under which they managed to send out false quotations. For the present these quotations have been discontinued, whether because the Exchange Telegraph Company has discovered their false character, or because their object has been accomplished, remains to be learned. The incident, nevertheless, calls for official notice.

"It may be asked, Why should the promoters of a wild-cat

concern, with a capital of £7, want their shares quoted on the 'Tape' at fictitious prices, and how, in any case, can they manage to get them so quoted? The object of the promoters is, first, to create an impression that their shares are actively dealt in and have a high market value, and, having created this impression by getting the quotation on the 'Tape,' and from the 'Tape' into the newspapers, to induce people to buy the shares or to lend money on them. The means employed to obtain the quotations are very simple. A broker is given an order to buy, and a jobber, provided with a bundle of shares, is procured to sell at an agreed figure, and the transaction between them is duly reported to the official in charge of the 'Tape,' who sends out the prices according to their report. As the names of the people reporting prices to the 'Tape' operators are recorded, the Committee can always learn who is responsible for them, and when they are inaccurate, or, as in the case I have referred to, obviously bogus, the Committee can suppress them, and call their authors to account.

"The matter is thus clearly within the control of the Committee. The public, however, may find its remedy elsewhere, if the Committee fails it. Obviously, any one who is induced to buy or to lend on worthless shares by the false representation that the shares are in active demand at high prices, would have a good cause of action, and obviously the broker and jobber who conspire to make and circulate false prices place themselves within the clutches of the criminal law."

About the same time the city editor of another well-known journal wrote as follows:—

"Inexperienced speculators looking out for low-priced—by which we do not necessarily mean cheap—mining shares may be warned against buying those of the _____ Company Limited, which have recently been sent over the 'Tape' with such persistence as to suggest a bigger business than has probably been transacted. The suggestion is that dealings are taking place round about 13s. per share. There is certainly nothing in the history of the company to justify an outsider in paying such a price."

Instances could be multiplied in which prominent financial writers have dealt with the subject in the same strain. Mr. Anthony Pulbrook, the author of *The Handy Book on the Law and Practice of Joint Stock Companies*, writes strongly on page 255 of his excellent work; while Mr. Charles Duguid, the city editor of the *Morning Post* and of the *World*, who is one of the first financial writers of the day, speaks equally forcibly on page 61 of his book, entitled *How to Read the Money Article*. When a scandal has reached such serious dimensions as to make no book on the Stock Exchange complete which does not refer to it, it is certainly time that the Committee of the Stock Exchange bestirred themselves to purge their institution of such a reproach.

Under the present condition, the "Tape" is used by the Company-Promoting clique to create in the minds of the financially ignorant a false impression of apparent negotiability in the stocks and shares of new issues which the promoter is endeavouring to trade off upon the public. Were it not for the serious losses in which the public are involved by this means, it would be almost laughable to observe the diligence with which more or less apocryphal dealings in a new issue are recorded hour after hour so long as the subscription list remains open, and then to remark how, as soon as ever the subscription list is closed and the wily promoter has no more use for the "Tape," all reference to the price of the stock which had been for days such a prominent feature on the "Tape" suddenly ceases. This unreformed abuse has flourished

unchecked by the Committee for close upon twenty years.

Now, these various abuses are all intimately connected with the present method by which a "market is made" on the Stock Exchange, and each of these evils originates in an unhealthy desire on the part of the Company-Promoter hastily to extemporise all sorts of unripe properties which will enable him to take prompt advantage of the fact that the great British public have suddenly "come on the feed" for some particular sort of Joint Stock enterprise. It must be remembered that this mood of the public which the enterprising promoter so eloquently terms "coming on the feed," is an exceedingly capricious mood. Exactly what form of Joint Stock enterprise may suddenly tempt the public appetite, baffles the foresight of the most gifted promoter to forecast correctly. Therefore it is the custom of the Company-Promoting fraternity to have a number of crude concerns of all sorts and descriptions carefully pigeon-holed, awaiting the moment when the public may happen to "come upon the feed" for that particular species of company. The Company-Promoter's methods may be most aptly compared to those of the fly-fisherman. What particular description of fly may prove the most "killing" on any given day is beyond the power of the most experienced angler to predict with any certainty, and indeed it is frequently the very fly which is finally tried in a fit of disgusted despair which proves to be lure to which the fish will suddenly rise. What his fly-book is to the fisherman, so are his pigeon-holes containing

crude schemes to the Company-Promoter ; they both contain bait in every variety of form, and the clever promoter is he whose pigeon-holes can be relied upon to produce, at any moment, the popular bait of the hour.

We see then, that, as a rule, by picking out the high lights of his prospectus - picture in the most vivid colourings, and by gently toning down its shadows, the Company-Promoter does his best to present the dividend-earning capacity of a new company as being far more ripe than it usually is, as a matter of fact, at the time of the company's flotation. By this means the public are induced to subscribe the capital in a manner which they would hesitate to do did they but understand that many barren months, and in some cases many barren years, had to intervene before the new venture could hope to be sufficiently developed to pay dividends upon the capital sum at which it was being offered for public subscription. The prospectus, therefore, is the instrument by which the public is induced to take a distorted view of the dividend-paying maturity of a new company. It has been explained above that early fruition of speculative promise and a "free market" in a security are the main essentials of a sound speculation, and a subscriber to a new company should remember that some of the keenest financial intellects in the country are engaged in creating a spurious appearance of both these essentials in the stocks and shares of a new issue.

Such is the unclean method of "making a market" on the Stock Exchange, and the system of "rigging

a market" is painfully similar. The system of "rigging" a market has been cultivated by the "bucket-shop" keeper to the pitch of taking its place as one of the fine arts. In these days the outside broker has achieved such prosperity, that he owns and publishes newspapers which merely exist to act as bait for his traps. And this prosperity of the outside broker has been obtained at the expense of such members of the Stock Exchange who act as brokers, and is largely due to the supineness of the Committee. For although the Committee stipulate that "Tape prices" shall only be supplied to bankers, members of the Stock Exchange, and the Press, yet such is their laxity of supervision over the company's use of their privileges, that the outside broker is able openly to boast on his circulars that he is in regular receipt of these supposed-to-be private prices all day and every day.

In the matter of the "rigged" market, it is the custom of the firm or clique which is working the "rig" to put themselves, first of all, in control of a preponderating proportion of the capital of the company which is to be "rigged." By this means the "riggers" acquire very much the same position as is occupied by the Company-Promoter in a new issue. Their *modus operandi* is then practically identical with that of the Company-Promoter when working off stock on the public at the time of a flotation. Once more financial papers are subsidised to publish a series of laudatory paragraphs; once more the services of the "Tape" are called in to lend an appearance of spurious activity to the market. Then,

in the case of a "rig" being engineered by an outside broker, the touting circular is called into requisition, and the letter-boxes of shareholders in kindred companies to the one which is being manipulated, are inundated with specious prophecies of impending prosperity for the company which is in the "riggers'" hands.

In justice to members of the Stock Exchange, it is only fair to say that in very few instances do they actually plan these manipulated market movements, neither, as a rule, do any members of the "House" actively take a hand in these "rigs." The Company-Promoter, the circularising "bucket-shop" keeper, the professional company-director, and gentry of this description are the prime movers in these discreditable manoeuvres, and financiers of this type, the first article of whose financial faith is to distrust every one, have a rooted antipathy to a member of the Stock Exchange, with free and uncontrollable access to the market at all times, being admitted into the secrets of a market-rigging syndicate. And the syndicate, by working the market through some half-dozen or more unsuspecting brokers, manage to keep the "House" in a state of desirable ignorance as to the exact details of the game which is being played and as to the strength of the principal players.

As a matter of fact, it is the fashion amongst victims of the Company-Promoter, of the "bucket-shop" keeper, and of the "market-rigger," to lay the blame for their losses upon the shoulders of the Stock Exchange. Neither can the Stock Exchange Committee in any way hold themselves blameless

for allowing their members to fall under a great deal of undeserved censure. As long as the Committee, which has absolute control over the "Tape," allows it to be used to further the schemes of the "rigger" without attempting to interfere in defence of the victimised public, so long will it be impossible for the Stock Exchange to dissociate itself from the stigma of false prices and "rigged" markets.

CHAPTER VII

DIFFERENT CLASSES OF INVESTMENTS—BALANCE-SHEETS

What is an Investment?—Two Characteristics of sound Investments—Budgets of States and Balance-Sheets of Companies—Importance of properly drawn-up Balance-Sheets—Study of Balance-Sheets and Intrinsic Value essential to Investor and Broker—Misleading Features of Balance-Sheets—Trustee Stocks.

To obtain an accurate insight into almost all questions connected with securities dealt in on the Stock Exchange, it is essential to regard all moneys subscribed by the public, either on the issue of Government Loans or on the flotation of Public Companies, in the light of money lent. The money so lent is represented by paper, and if such paper were regarded by the investor from the same point of view as he would scrutinise the acceptances of a firm or an individual whose bills he was asked to discount, there is no doubt that the investing public would protect themselves from many a rash investment. If the investor would learn to treat the act of investment with the same serious consideration as he would treat the act of advancing money to an individual, either against a specified security, as

in the case of Debenture-issues, or against a note of hand simply, as in the case of Government Loans or ordinary stocks, he would then approach the question of investment with a much more intelligent appreciation of the risk which he runs when he invests his money, than he possesses at present.

The test of the soundness of an investment may roughly be said to be that it shall possess two characteristics — namely, that it shall enable its holder to realise his capital at any moment without loss, and that it shall pay its holder a reasonable rate of interest so long as he holds it. Of course, it is always open to an investor to sacrifice one of these considerations in return for a proportionate increase in the other. For instance, in return for a high rate of interest from a terminable debenture which is to be paid off at some future date at a price below that at which it is purchased, an investor may elect to overlook the eventual depreciation in his capital. Or, again, in the case of a mining company paying a good dividend, an investor may be prepared to run the risks inseparable from all mining ventures, and to accept a high rate of interest in return for the risk to which his capital is exposed. So long only as an investor fully acquaints himself with the risks which he is running, and buys his stock at a price which fairly covers those risks, his investment is sound. Indeed, although it may seem a somewhat astounding statement to make, it may be said that no investment can be described as unsound in itself. The only unsound part about any investment lies in the price which may be paid

for it. The soundest of stocks, from Goschens downwards, may be bought at an unsound price, and when an unsound price is paid for the most gilt-edged of stocks, the purchase at once ceases to be a sound investment.

Similarly, let us take the case of an investment made in a non-dividend-paying stock or in a stock making but a paltry return upon an investor's capital. In such a case as this, an investor may deliberately choose to sacrifice the interest upon his money, and to accept instead the strong probability of seeing a considerable rise in the price of his security as a compensation for the interest which he elects to forego. Such an investment, although it may be made in the veriest dividendless rubbish, may be perfectly sound, as an investment, if only the price paid for the stock is such as warrants the investor in reasonably expecting to see a compensating accretion in his capital in the future.

This brings us back to the great truth that all investments are sound, but that, without exception, every security quoted upon the Stock Exchange stands at an unsound price at times, and some securities never stand at a sound price at all, until they are finally quoted at zero. It is possible to invest money disastrously in Goschens by buying them in times of inflation, as the investor has had strongly brought home to him during the last ten years on more than one occasion. It being impossible on occasions to invest in the world's premier security without running the risk of seeing a serious depreciation of one's capital, it is obvious that this

same risk, only in a more intense form, is inseparable from investment in all other sorts of securities. The act of investment resolves itself into the purchase of the note of hand of a State or a Company, only that this note of hand is not recoverable against the party who issues it, but is merely negotiable in the open market at the price which is considered to be its value, looking at the credit in which its issuer stands. There are, of course, many bonds and debentures which are finally redeemable by the issuers on specific dates in accordance with the terms on which they were originally issued, but these, although their aggregate amount is enormous, are numerically but a small minority of the securities dealt in on the Stock Exchange, and these redeemable securities are by no means exceptions to the rule that stocks fluctuate in sympathy with the credit of the State or Company which issues them. The great majority of securities dealt in on the Stock Exchange are acknowledgments of capital borrowed, which is only repayable to the lender in the event of the borrower going into liquidation. Redeemable stocks comprise English, Foreign, and Colonial loans of all sorts, and the mortgage debts of English and Foreign Railways and Industrial Companies; while the irredeemable stocks, speaking generally, are the preference and ordinary stocks of all companies, English and Foreign. Some preference stocks are issued subject to certain redemption conditions, but such preference issues are exceptional.

Having accustomed himself to the idea that securities are acknowledgments of money lent, the

prudent investor will next consider by what means he can arrive at a trustworthy estimate of the solvency of the various borrowers whose I.O.U.'s are daily dealt in on the Stock Exchange. In the case of a State, its solvency is to be tested by its Budget statement; while in the case of a Public Company, its financial position is to be learnt from the balance-sheets which it issues half-yearly or yearly, as the case may be. The half-yearly balance-sheet is the usual form in which the position of Public Companies is put before shareholders.

In weighing up the solvency of a nation, the great point to be considered is whether, in times of peace, the national revenue is sufficiently large to enable the State steadily to pay off the debts which it has contracted in times of war. All European National Loans were primarily War Loans, and a solvent nationality should not only be sufficiently strong financially to meet the interest on its loans in times of peace and war, but also, in times of peace, its revenues should be large enough to permit of the formation of a Sinking Fund for the steady reduction of the National Debt. Without such a Sinking Fund for the purpose of debt redemption, it is clear that, in times of peace, a nation's resources are only equal to bearing the burden of interest payments on past indebtedness, and that no proper provision is being made against future contingencies by the systematic reduction of past liabilities. A truly solvent nation, then, is a nation whose revenues are equal to the task of steadily paying off its War Loans in times of peace; and a nation which cannot achieve this, but, on the

contrary, finds itself under the necessity of raising new loans to meet its peace expenditure has certainly taken the first step towards national insolvency.

Beyond the loans of the great European Powers, which were primarily War Loans, there are the loans of younger foreign nationalities, such as those of Brazil and the Argentine, and the State loans of the English Colonies. The money represented by these loan-issues was not raised for the purpose of war, but—nominally, at least—for the development of the resources of these countries and Colonies. That a portion of this money was injudiciously expended, and that some of it was senselessly squandered, there can be no question; but in spite of these youthful follies, and in spite of the fact that it is no difficult task to prove the insolvency of only too many youthful nationalities, and of not a few of the English Colonies, yet it would be foolish to close one's eyes to the strong probability that these past extravagances will be wiped out by future developments. Indeed, any one who studies the early financial history of our great English railway companies cannot fail to be struck by the strong family likeness between their initial financial follies and the indiscretions committed by the English Colonies of recent years. The most soundly financed of English Railways began their careers with a spendthrift expenditure of capital which for a time precluded any possibility of dividends on their ordinary stocks, but, with the growth of population and the consequent expansion of traffic, they managed to emerge from what amounted to a practical state of insolvency into their present condition of decorous

respectability. With a similar growth of population, accompanied by a more prudent system of finance, there is a strong probability that the financial history of English Railways will repeat itself in the case of the English Colonies, and perhaps also in the case of Argentina, Uruguay, and Brazil. At any rate, with the object-lesson of the English Railways before him, an investor may at least hesitate to condemn as hopelessly insolvent young nationalities whose methods of finance will not stand the test which should be applied to the finances of more matured States.

As the Budget is the index to the solvency of a State, so its balance-sheet should clearly set forth the financial position of a Public Company. Unfortunately, however, it requires no little discrimination to arrive at a correct estimate of a company's position from the figures of its published balance-sheet. The position of the firm of accountants who are called in to check the figures of a company's balance-sheet is an absurdly anomalous one. For, at the outset of a company's career, a firm of accountants is appointed by the Board of Directors to occupy the position of Chartered Accountants to the new venture. As the primary duty of accountants is to protect the general body of shareholders from misfeasance or fraud on the part of their directors, the absurdity of directors appointing a watch-dog of their own choice to watch over their own proceedings, and to protect their shareholders from the Board's own financial indiscretions, requires no demonstration. This situation, ludicrous though it is, would lose much of its absurdity if hard-

and-fast rules were laid down for the guidance of accountants in auditing a company's accounts and drawing up a balance-sheet to present to shareholders. If Chartered Accountants were bound to render the accounts of Public Companies according to a certain fixed form, the investing public would benefit enormously. As matters now stand, the Chartered Accountant passes accounts which are drawn up in the fashion which most commends itself to directors, however misleading to shareholders such a balance-sheet may be. If it were possible to add a further touch of comedy to this picture, it lies in the fact that Chartered Accountants are paid substantial fees out of the funds belonging to shareholders. So that the situation is simply this—accountants are appointed by directors to protect shareholders against directors, and shareholders have the privilege of paying accountants, who are appointed for their protection, for rendering accounts in any form which directors may suggest. In these circumstances, it is small wonder that investors are frequently victimised by the misrepresentations of balance-sheets, so prepared.

When approaching a balance-sheet, therefore, an intending investor will do well to remember that, in the case of a great number of companies, the balance-sheet by no means presents, as it should do, an accurate statement of a company's financial position, and without arriving at a correct estimate of a company's solvency it is impossible to estimate the true investment value of that company's stocks. It is true that very few investors, comparatively speaking, ever take the trouble to investigate a company's

position from its balance-sheet before they invest their money in it, and almost equally few investors ever take the trouble to analyse a company's accounts, even after they have become debenture-holders or shareholders therein. But then it is equally true that the majority of investors are by no means fortunate in their investments.

Whatever may be the laxity of the general public in this respect, it is certainly necessary that any man who wishes to conduct a Stock Exchange business intelligently should accustom himself to the analysis of balance-sheets. Not that there is not a certain element of danger attached to too intimate a knowledge of a company's position, unless the investigator perpetually bears in mind that, in times of inflation, Stock Exchange prices travel far above intrinsic value, and that similarly, in times of panic, prices fall equally below intrinsic value. If he will keep these facts before him, however, it is an immense advantage to a stockbroker to have a definite idea as to what is the intrinsic value of a company's capital. This knowledge will enable a stockbroker, in times of a wild boom, to lay his finger upon particular stocks as being dangerously inflated, and in times of panic it will enable him to form a sound opinion of what are the most advantageous bargains offering. Although it is true that a stock may only stand at its intrinsic value on exceedingly rare occasions, and its normal condition may be to be quoted at times much higher, and at other times much lower, than its real worth, yet a knowledge of the exact financial status of companies will always enable a man to make up

his mind quickly as to what ought to be sold in the delirium of a "boom," or as to what ought to be bought in the crisis of a "slump." Indeed, if a stockbroker will only judiciously temper his knowledge of the intrinsic value of a particular stock by also studying its highest and lowest quotations during the previous five years, he will, at any rate, avoid the danger of being merely one of that foolish flock of sheep who, alike in times of prosperity and in times of disaster, all struggle to crowd simultaneously through the same gap in the Stock Exchange hedge. A stockbroker who has some knowledge of companies' trading results and of their extremes of quotation in recent years, will be able to assist his client far more intelligently than the too typical broker, who at all times and seasons appears to be possessed of the solitary idea that "they are bound to go better."

Now, in studying a balance-sheet, it will almost invariably be found that the items which go to disguise the true financial position of a company are entered amongst the assets of a concern. To attempt to pare down liabilities would excite a feeling of horror in the mind of the self-same Chartered Accountant who is perfectly prepared to wink at an unjustifiable inflation of assets. By what process of casuistry an accountant persuades himself that the inflation of a company's assets is a venial offence in comparison with the understatement of liabilities, it is difficult to understand. This is one of those mysterious "trade customs" of which the origin is obscure, and of which the practice is reprehensible. It is, however, a "trade custom" which apparently

is approved of, not only by Chartered Accountants of first-class standing, but also by surveyors and valuers generally. For it is no uncommon thing to see the freehold and leasehold property of a company valued by a leading surveyor as being worth so many thousands of pounds "for the purpose of the company's business," or to see the gigantic stock-in-trade of such a mercurial business as that of a draper valued for a prospectus or a balance-sheet "at or below invoice cost." And such valuations, containing these few laconic words of warning, are considered to be ample notification to an intending investor that the assets of a company are not, in fact, of the value at which they are written into the company's accounts. Inasmuch as such oracular remarks never do, as a matter of fact, convey any warning whatever to the general body of investors, such a system of presenting accounts is wholly misleading.

To inform an intending applicant for debentures that the land on which his debenture is secured is worth a certain sum "for the purpose of the company's business" is to value the land in question at its true value plus a certain fictitious value in the shape of goodwill. This, however, is not a valuation which is the least guide to an intending investor. The only valuation which would be of any service to him is the fair market-value of the land at public auction. The question of realising his security would not arise for a debenture-holder until the company had ceased to be a going concern, and until the value of the land "for the company's business purposes" was no longer a factor in the valuation.

In the same way, owing to the vagaries of fashion, it is manifestly misleading to value out-of-date stock in the drapery business at invoice cost. Yet this was done in the case of a recent flotation, where shareholders were taking over old stock sufficient to supply the concern's turn-over for the next two years. A curt reference to the, in our opinion, unsatisfactory way in which the valuation of this stock had been arrived at by no means gave the investing public adequate warning that this asset was being transferred to them at a price which would have been considered preposterous by any practical draper. Yet this is the interpretation which the ignorant public were expected to read into such an innocent-looking phrase as "at or below invoice cost." Or, again, in the case of balance-sheets of Mining Finance Companies, it is quite customary for directors to credit the concern with the value of various mining shares which the company holds, these shares being valued at their cost price and not at the current market quotation of the day on which the balance was struck, as they undoubtedly should be. This habitual overvaluation is cursorily alluded to by the company's Chartered Accountants in a few words, which convey no hint of disapproval of such an unfair inflation of assets.

Beyond this, there is the item of "goodwill," which, in the case of many companies, figures as an asset in the balance-sheet for an unconscionable number of years. This is another matter on which a rule has unfortunately never been promulgated for the guidance of accountants, and consequently "good-

will" is left entirely to the whim of the directors, to be valued by them as may appear fit to them, and in this valuation it is the custom of Chartered Accountants meekly to concur. Now, "goodwill" is a perfectly intangible asset; it is reasonable enough that, when a Public Company acquires the business of a successful private trading concern, that the purchasing company should pay for the business-connection which has been built up by the exertions of the men who created the business which is changing hands. "Goodwill" being an important part of the assets acquired, it is reasonable enough that this item should appear in the balance-sheet of the purchasing company in its first few years of trading; but as it is an ephemeral asset which bad management may easily reduce to nothing, it is an item which, under a sound system of bookkeeping, should be steadily written down year after year until it finally disappears from the balance-sheet of the company within the first seven years of its existence. Such, however, is by no means the practice of Public Companies. But a student of balance-sheets will do well to fight shy of any concern which is not so capably managed as to show an ever-recurring diminution in the value of its "goodwill."

So far, we have considered the different classes of Stocks and Shares as broadly divided into moneys borrowed by States and moneys borrowed by Joint Stock Companies. There is, however, another way of classing all Stock Exchange securities into two large groups, and that is by dividing them into stocks which may be held by Trustees under sanction of Act

of Parliament, and into stocks which lie outside the provisions of the Trustee Act.

By the courteous permission of Messrs. Fred. C. Mathieson & Company, we append the following extract from their *Complete Investment List* on the subject of the "Trustee Act":—

"An Act of Parliament received the Royal Assent on September 22nd, 1893, enacting that Trustees, where they are not expressly forbidden by the Trust Deed, may invest any trust funds, whether at the time in a state of investment or not, in any Parliamentary Stocks or Government Securities of the United Kingdom: on real or heritable Securities in Great Britain or Ireland: in Bank of England Stock: Bank of Ireland Stock: India $3\frac{1}{2}$ per cent. and 3 per cent. Stocks: any Stock hereafter issued by authority of Parliament, charged on revenues of India: any Securities, having interest guaranteed by Parliament: Metropolitan Board of Works or London County Council Stocks: Debenture Stock created by Metropolitan Police District Receiver: Debenture, Rent-charge, Guaranteed or Preference Stocks of any railway in Great Britain or Ireland, that has paid not less than 3 per cent. per annum on Ordinary Stock for each of the ten years preceding date of investment: any Railway or Canal Stock in Great Britain or Ireland leased for two hundred years or more at a fixed rental to any railway specified above: Indian Railway Debenture Stocks of companies with interest paid or guaranteed by Indian Council: 'B' Annuities, Eastern Bengal, East Indian, and Scinde, Punjaub, and Delhi Railways, 'C' and 'D' Annuities of the East Indian Railway, and any like annuities of any other railway hereafter created: any Indian Railway with fixed or minimum dividend paid or guaranteed by Indian Council: any Debenture, Guaranteed or Preference Stocks of any incorporated or chartered Water Company in Great Britain or Ireland, that has paid not less than 5 per cent. per annum on Ordinary Stock for each of the ten years preceding date of investment: any Corporation Stock of any borough having 50,000 inhabitants: any County Council Stock authorised by Act of Parliament or Provisional Order: any Water Stocks

issued by incorporated Commissioners levying compulsory rates over areas containing 50,000 inhabitants, such rates not having exceeded 80 per cent. of authorised amount for ten years : and in any Securities authorised by order of the High Courts of Justice of England or Ireland : Provided Stocks are not redeemable within fifteen years at a fixed price, or purchased at a price exceeding 15 per cent. above such price.

"The rule of the Supreme Court, issued November 14, 1888, authorises investment in :—Debenture, Preference, Guaranteed or Rent-charge Stocks of railways in Great Britain or Ireland having for ten years next before the date of investment paid a dividend on Ordinary Stock or Shares, and in Nominal Debentures or nominal Debenture Stock under the Local Loans Act, 1875, or under the Isle of Man Loans Act, 1880, provided such Stocks are not liable to redemption within fifteen years from the date of investment.

"Trusts Amendment Act, 1884 (Scotland only), excludes all Irish real or heritable Securities or Stocks, also British Railway contingent Preference and Waterworks Stocks ; admits all Railway Debenture Stocks, and Guaranteed Stocks of Railways that have paid Ordinary Dividends for past ten years ; also all Municipal Loans, and East India Stocks, and registered Colonial Stocks if approved by Court of Session.

"The Colonial Stock Act, 1900, permits Trustees, both English and Scotch, to invest in certain Colonial Stocks registered in the United Kingdom which the Treasury publishes a list of in the London and Edinburgh Gazettes, but subject to the clause as to redeemable stocks in the Trustee Act, 1893."

It will be observed from this list that the only Public Companies recognised by the Trustee Act are Railway Companies and Water Companies. In the case of both these types of investment a holder of stock is protected against the risk of ruinous competition in the future by the fact that, without the sanction of Parliament, it is impossible to build a railway or to inaugurate a new system of water-supply

in the United Kingdom. As to the wisdom of admitting Corporation and County Council Stocks to the dignity of Trustee Investments, there is at least room for doubt in the case of Corporations of which the population is but little in excess of the fifty thousand inhabitants stipulated for by the Act, and in the case of County Councils in certain sparsely inhabited districts of which the rateable value depends almost entirely upon one staple trade or industry. For instance, had the present Act been in force during the prosperous times of Cornish tin-mining, it is obvious that many districts in Cornwall, which were at that time populous, would have felt themselves justified in raising loans which would now be an impossible burden for them to bear,—the Cornish tin-mining industry having since been practically extinguished in many places by the more cheaply produced tin from virgin mines working at comparatively shallow depths in America and other parts of the globe. Further, when the ribbon-weaving industry of Coventry found itself undersold and run out of the market by ribbons of French make, it would have gone hard with the Corporation Loans of Coventry had not that town, by what may almost be termed a happy accident, replaced its lost ribbon-manufacture by taking a prominent place in the then small but very rapidly expanding business of making bicycles. That history will certainly repeat itself, and that a similar shifting of industrial centres to that which overtook Cornwall and Coventry will befall other districts and corporations in the United Kingdom, is a risk of which it would seem the

Trustee Act has taken too small cognisance. It is true that a trustee who invests trust-funds in strict compliance with the Trustee Act is thereby exonerated from all future responsibility with regard to his trusteeship; but beneficiaries under the trust, upon whom the loss does fall in the case of any loss accruing, may perhaps one day have cause to rue unlucky investments made in County Council and Corporation Loans, although these investments have been made in strict accordance with the provisions of the Trustee Act.

By special clauses in wills and by terms of deeds of gift, it is no uncommon occurrence for trustees to be empowered to invest trust-money in securities which lie outside the definition of the Trustee Act as to what constitutes a trust investment. Although no responsibility attaches to a stockbroker who carries out the instructions of trustees in making such an investment, yet a broker will always be well advised to draw the attention of trustees to the point when he is asked to invest trust-money outside the Trustee Act. For, should any subsequent irregularity be discovered in the Trust's investments, trustees are not a little prone to lay the blame for their own remissness at the door of the stockbroker.

CHAPTER VIII

INVESTMENT AND SPECULATION

Pure Investment—Speculative Investment—The Purchase of Rubbish - Stocks — Taking Profits and Cutting Losses — “Contango” and “Backwardation”—The Weekly Bank Return—“Options.”

THE essential difference between the operation of buying stock for investment and buying it for the purpose of speculation is that, in the case of investment, the stock is paid for with the purchaser's own money, while stock bought for purposes of speculation is paid for with borrowed money. Such money may be borrowed on the Stock Exchange at each settlement, and this method is termed the operation of “contangoing” stock (see p. 144). On the other hand, the speculative purchaser may arrange to pay for his stock by means of a loan raised with his own bankers; stock so paid for is known as “pawned” stock. In the case of a pure investment, in which stock is bought with a view to a permanent holding and with the intention of enjoying the dividend advantages of such a purchase, the matter of investment is simple enough. The client informs his broker what amount of money he has to invest and

the name of the stock which he intends to buy ; the broker then calculates what amount of nominal stock can be bought so as to enable the client to pay for the stock, for the transfer stamps and fees, and the broker's commission, out of the sum of money available for investment. Having arrived at the amount of stock which is required, the broker purchases it on the best possible terms in the market, and issues a contract (see p. 50) to his client specifying the amount of stock purchased, the purchase-price and the cost of the stock when worked out at this price. This cost has the stamps, fees, and commission charges added to it on the contract, and the total sum so arrived at will be the amount payable to the broker for the stock on the account day, on which the stock is deliverable. It is the custom of some clients to remit this amount direct to their brokers, while others prefer to instruct their bankers or their bankers' London agents to pay for the stock, or any part of it, when and as delivered. The client obtains full protection against the possible insolvency of his broker by arranging that a banker pays for the stock on delivery. Such an arrangement is quite usual, and a client need never be under any apprehension of a broker taking umbrage thereat.

Closely allied to the pure investment is the Stock Exchange operation which is termed the speculative investment. And of all means of losing money on the Stock Exchange there is none so prolific of loss as the speculative investment. The speculative investment has all the appearance of solidity and respectability which characterise the pure investment,

and it presents itself in so demure a guise to the Stock Exchange operator that it is small wonder that he is only too apt to succumb to its temptations. Not only do the speculative public fall a prey to the speculative investment, but members of the Stock Exchange also are perpetually entrapped by its wiles. Now, to a man who has a few hundred pounds lying idle at his bankers', and who is impressed by the traffics of a railway company, or who is fired by the enthusiasm of a chairman's speech at the meeting of an industrial or mining company, nothing is more tempting than to buy a non-dividend-paying stock in the expectation of seeing a substantial increase in its value in the next few months. From such expectations as these spring the speculative investment. Moreover, the speculative investor makes a business-like calculation of the amount which he would otherwise spend on "contango" charges, and he has little or no difficulty in persuading himself that he is doing a wise and economical thing in making a speculative investment and taking his stock off the market altogether. He tells himself that the great advantage of the speculative investment is the fact that, not only are the ultimate profits of the transaction not eaten into by "contango" charges, but also, with the stock comfortably locked away in his tin-box, he will not be tempted to throw it away in some spasm of depreciation which may unexpectedly overtake the market. This reasoning is sound enough on the surface, and it is on these arguments that the speculative investor is nourished and brought up.

The weak spot about speculative investment is that

it is essentially a policy of drift, whereas the only successful speculator is he who goes for a specific event, and who takes his profit or cuts his loss when the contingency upon which he speculated has occurred or has failed to happen as expected. The very fact that his speculative investment is locked up, and that its depreciation is not emphatically brought home to him every Account Day, robs a speculator of that nimbleness of mind which is the mainspring of all speculation. And beyond this, the idea that he has incurred the expense of registering the stock in his own name makes a speculator hesitate to cut his loss when the necessity, or at least the expediency, of doing so is obvious. Moreover, the speculative aspects of markets change almost imperceptibly, but very completely, even in so short a period as three months, and a speculative view of every market is almost invariably musty with age by the time it is six months old. But the speculative investor who has paid for his stock and locked it up loses that suppleness of mind which should enable him to survey a market correctly from a new standpoint. The speculative investor, indeed, has no new standpoint; he doggedly surveys the market from the top of the security-box in which his speculative investment reposes, and so his point of view becomes fixed and immovable. He develops rapidly into the very worst type of speculator, which is the obstinate speculator, and the fate of the obstinate speculator is either to lose his money or else to have his speculative resources permanently locked in a disastrous speculation for an indefinite period.

Yet every one who has had any experience of winding up the estates of deceased members of the Stock Exchange cannot but have been struck with the appalling amount of worthless stuff which the most successful men amongst them gradually accumulate by means of speculative investments. Indeed, a well-known member of the Stock Exchange declared that, in the crash of a railway accident, the uppermost thought in his mind was, what a fool his executors would know him to have been when they came to survey the mass of rubbish securities which this astute man of business had carefully locked away as speculative investments during his lifetime.

The truth is that investment and speculation are two distinct species of operation, and the hybrid operation which partakes of the nature of both is but seldom satisfactory in result. Yet in times of extreme panic there is no better-paying operation than speculative investment in low-priced rubbish-stock. At such crises dividendless gambling counters can be picked up by a cash-buyer at quite nominal prices when money is scarce and credit is scanty. "In the greatest of panics, buy the greatest of rubbish," is an old and excellent Stock Exchange maxim. In the throes of a panic, rubbish-stock is depressed, not by any impending assessment or similar disaster peculiar to that particular stock, but such purely speculative nominal valuations lose all their vague potentialities of future prosperity, and are offered down by anxious sellers to something very close to their intrinsic worth. This is the golden opportunity of the speculative investor. Then an

investment in rubbish-stocks pays infinitely better than an investment in temporarily depressed stocks of undeniable merit. Let us take, for instance, the case of a man possessed of a loose thousand pounds, who in a time of crisis invests his money in Consols or Home Railway Stocks. The profit upon such an operation, when the Stock Exchange sky is once more clear, may be three per cent., or possibly, in an extreme case, even ten per cent. A substantial enough return upon a speculative investment, considering that the duration of the operation was only a few weeks. Such a profit, although handsome enough, looks paltry beside the more lucrative operation of buying at half a crown a dividendless mining share of which the price normally stands at about five shillings, and which duly returns to its normal figure when the wave of panic has subsided. The buyer of rubbish in this case makes cent. per cent. or thereabouts upon his speculative investment, and he too achieves this magnificent profit in a few short weeks.

In times of panic there is no comparison to be made between the profits of the buyer of high-class stocks and those of the speculative investor who has the courage to buy rubbish. Where, however, the buyer of rubbish is apt to make a mistake is in overlooking the cardinal fact that he has bought out-and-out rubbish. He is tempted, when he has acquired his rubbish, to begin to regard it too seriously. He reads, perhaps, the flamboyant speech delivered by a too sanguine chairman at the company's last half-yearly meeting, and, inspired by this, he mentally decides to sell his shares at some absurdly unattain-

able price. The highest form of Stock Exchange courage is the courage which enables a man boldly to take a magnificent profit when the market gives him the opportunity. Few men really possess this courage, and it is the lack of it which makes speculative investment in low-priced stocks so unremunerative to the average operator. The temptation is to hang on too long, and the man who habitually holds low-priced shares will find that the absence of dividends, together with the assessments and drastic reconstructions which are the common fate of shareholders in unremunerative ventures, will rapidly eat up all the profit made in occasional exceedingly profitable coups. The two great obstacles to successful speculation are a reluctance to secure profits and a lack of sufficient decision to cut losses. And both these weaknesses are undeniably fostered by systematic speculative investment—a method of operating which has a tendency to lull a speculator's perception to sleep while his market is steadily slipping away from him.

The maxim which was adopted by the cleverest speculative band of operators of recent years was never either to buy a "bull" or to sell a "bear" of any stock which was not admitted to the Stock Exchange Clearing-House; and also never, under any circumstances, to pay for stock and take it off the market. Acting on these rules, and assisted by considerable natural shrewdness, the clique who worked upon these lines achieved considerable speculative success. Their idea in only operating in stocks which were included in the Stock Exchange Clearing-House was to insure

themselves against getting caught in a narrow and a neglected market. For as soon as a stock ceases to attract speculative attention, it is struck off the list of stocks with which the Clearing-House deals. And the idea of never paying for stock, but always carrying over their speculations in the open market, was to guard themselves against the dangers which beset the speculative investor. It need hardly be said that a speculator, by simply observing these rules, will not necessarily make money upon the Stock Exchange, but by adhering to this programme an operator will at least avoid the ordinary pitfalls of speculation. When stock is carried over in the market, the speculator's attention is forcibly drawn every fortnightly account to the amount of his profit, or to the seriousness of his loss, and this fortnightly taking of his bearings is at least of great assistance in preventing the financial navigator from too blindly holding on to a dangerous course. Figures and cheques, however, are not always sufficiently eloquent to impress a client with the magnitude of the profit which he has made, but which he yet hesitates to secure by closing his account. And in this connection a well-known broker adopted the following plan by way of impressing an over-sanguine client with the splendid profit which he could not be induced to take. Having made an appointment for his client to call upon him at his office, he had heaped upon a side-table in his private room some six thousand sovereigns in gold. "That, my dear sir," he explained, "is the present profit on your 'bull' of Rio Tinto shares. Now, I want you to instruct me to close your account; and while I step

over to the 'House' to sell your shares, you can occupy yourself in counting the money." Needless to say that this stratagem was successful, and for once a vacillating client was persuaded to take a profit instead of allowing it to melt away again in the pendulum-like swing of the market, as is the custom of only too many clients. In a rather less emphatic way the fortnightly account is useful in impressing upon a speculator the amount of the profit he has made, or of the loss he has incurred.

Although it is true that stock can usually be hypothecated with a bank at a slightly lower rate of interest than the rate of "contango" in the open market, and although the speculative investor, who pays for his stock outright, altogether avoids this constantly recurring "contango" charge, yet I doubt whether, in the end, it will not be found that "contangoing" stock in the market is not the cheapest method of speculation.

The system of "contango" is this: At noon on the first day of the account, which is called Contango Day, the Official Broker to the Committee, after consultation with the leading dealers in a market, draws up a list of stocks with their current prices, which prices are known as "Making-up Prices," and on these prices the account open between dealers in the market, between dealers and brokers, and finally between brokers and clients, is adjusted.

The method of adjustment as between broker and client consists of the client instructing his broker to "continue" his stock for him. It should be noted, however, both by client and by broker, that such "con-

tinuation " instructions necessitate a fresh contract, and that a client cannot insist upon a broker "continuing" his stock for him. At each settlement it is open to a broker to refuse to carry over further on behalf of a client. And it is absolutely essential that a broker should possess this power of refusing to incur further responsibilities in the market for a client, whose means may have been exhausted by previous losses ; because it is the broker's obligation to pay the market any differences which may arise from the client's speculation, whether the client does or does not pay the broker. As, therefore, the broker's own solvency may be imperilled by the hazardous speculations of a client, it must always remain within the power of the broker to decide whether he will or will not further "continue" the speculative commitments which he may have open on behalf of a client. A misunderstanding as to this question of "continuation" may cause serious loss to the client, and may put the broker into a very awkward position, if a definite arrangement be not arrived at when the speculative transaction is originally opened. And as the whole art of stockbroking consists in avoiding bad debts and in keeping clear of all friction with clients, it is the policy of a prudent stockbroker to arrive at a definite arrangement with his client on the question of "continuation" at the outset of a speculative venture.

Having received and accepted his client's instructions to "continue" stock, the broker proceeds to "lend" his client's stock, if the client be a "bull" and has speculatively bought stock, and to "borrow" his stock, if his client be a "bear" and has speculatively sold

stock. "Lending" stock in the market consists of selling stock for cash at the making-up price, and of buying it back for the new account at the same price plus a charge for interest until the following settlement. By this "contango" sale for the current account the client's previous purchase is closed at the making-up price, and, should the making-up price be higher than the client's purchase price, the account will show a balance in favour of the client. Should, however, the making-up price be below the client's purchase price, the transaction will show a loss to the client. These profits or losses, on the adjustment of the account, are termed "differences." And such differences are paid and received between broker and client, and between the broker and the market, on the last day of the account, which is called Pay Day. Cash differences having thus been adjusted between broker and client, and between broker and the market, the price of the stock which is open is by this means either written up to its current market value, or written down to it, as the case may be. Then, as the client, when a "bull," buys back his stock for the new account by the operation of "contango," he begins the new account a "bull" of the stock at the making-up price, plus the rate of interest he may have been charged for lending his stock from one account day to another, and further plus the carry-over commission charged by his broker for undertaking the responsibility of his speculative transaction for another account.

Similarly, when a client has speculatively sold stock and is a "bear" of it, the broker, in order to

continue the transaction to another account, "borrows" the stock for his client; that is to say, the broker buys back the stock for the current account at the making-up price, and sells it again for the new account at the same price. In the case of a "bear" operation, the client makes money if the stock is continued at a price below that at which it was originally sold, and loses money if the stock has risen. The advantage which the "bear" usually has over the "bull" is that, instead of having to pay a rate of interest fortnightly to "continue" his speculative operation, the "bear" generally receives the rate of continuation, or, in other words, he is credited with the "contango" instead of being debited with it. On the other hand, the "bear" is debited with any dividend paid by a stock of which he is short at the time of the dividend payment; while the "bull's" account is credited with any dividend-distribution made on a stock which he has open at the time of the payment of the dividend.

At times, when the strife between "bull" and "bear" is raging keenly in a market, the "bull" faction, by paying for stock with money loaned from bankers or from some of the various Trust and Investment Companies, will create an artificial scarcity of stock, and by these means will compel the "bear" party to pay a fine at the settlement for such stock as they are unable to deliver; this fine or forfeit for non-delivery is termed a "backwardation." Now it may be doubted whether, in the whole history of the Stock Exchange, the genuine investment purchases of any security have ever exceeded the floating supply of stock carried over on loan; in fact, it may be doubted

whether such a thing as a genuine "backwardation" has ever existed. It is the fashion among certain financial writers to assert that the fact that a "backwardation" is the ruling rate of continuation in a stock, is strong *prima facie* evidence that a market is dangerously oversold, whereas in truth the existence of a "backwardation" is nothing more than an indication that a market is being manipulated by a powerful clique, who, by pawning large blocks of stock, are attempting to create an appearance of scarcity of stock, while under cover of this artificial "backwardation" they are liquidating an enormous "bull" commitment.

For instance, suppose that a syndicate, having bought and pawned a million of any stock, were to elect to close its "bull" operation, then clearly, as a piece of market finesse, it would pay better to sell quietly half a million of stock in one account, and the remaining half million during the next account, rather than attempt to force the whole million upon a possibly reluctant market. And, having sold its first half million, it would be better policy not to deliver that portion of the stock until the next account, when the whole million had been liquidated. Therefore, at the settlement, instead of delivering their first half million, the "bull" clique would not deliver the stock which they had sold and of which they were possessed, but would rather come into the market and borrow other stock in its place, as if they were in fact "bears." It is this action of large "bull" cliques masquerading in "bears'" clothing which generally causes stock to be carried over at "backwardations." And if only a sapient

City editor or two can be found to remark on the "backwardation" as evidence of the perilously oversold state of the account, ignorant speculators may possibly be tempted to make purchases and so assist the "bull" clique to complete their work of liquidation. Then, having realised the whole of their holding, the "bull" syndicate delivers its stock, and the artificial "backwardation" melts into thin air, to the disgust of the small speculators who, misled by the "backwardation," have made purchases in anticipation of a great "cornering" of the "bears."

Looking at it broadly, the small speculator will be wise to dismiss the idea from his mind for ever, that a "backwardation" is any evidence of a stock's being heavily oversold. He may rather accept it as an indication that a market is in the hands of financial giants, and that the smaller operators like himself will do well to steer clear of it altogether for a time. If, however, a small speculator will persist in meddling with a market in which the ruling rate of "continuation" is a "back," he had better sell himself a "bear" rather than buy himself a "bull." Let him make up his mind, if necessary, to pay a "backwardation" and to pay his differences philosophically, if the market goes against him. For the history of all speculative movements which have been accompanied by a "backwardation" points to the ultimate collapse of the corner, and the triumph of the "bear" party. Only let an operator in such a market remember that fluctuations will in all probability be exceedingly wild, and that he must be proportionately circumspect in keeping his

speculative commitment within a prudently modest compass.

The ruling rates of "continuation," whether the rate be a "contango" or a "backwardation," are very untrustworthy indices to the state of the speculative account open in any stock. And the reason of this is that the bulk of the speculative stock is almost invariably carried over direct with bankers by the large speculative cliques. The main body of the floating stock being thus privately financed, the rates of "continuation" charged for carrying over the remainder in the open market are only too apt to prove to be false beacon-lights to the speculator who attempts to steer by them. There is, however, one infallible test of the condition of the money market, and that is the Weekly Return of the Bank of England, which is issued every Thursday. Now, as all the banks of the United Kingdom keep their bullion reserves with the Bank of England, the Bank of England Weekly Return, which shows the banking reserve of the whole country, is a valuable indicator of the condition of the Money Market. This banking reserve consists of such notes and gold and silver coin as the Bank of England holds in its till. This reserve is affected by the increased or decreased demand for internal circulation, and by the receipts or withdrawal of gold in connection with the country's foreign trade and colonial finances. Beyond its Weekly Return, the Bank of England publishes each day a statement of the gold withdrawn for shipment abroad and of the gold received from outside the United Kingdom. By this

means an operator is kept closely posted of all bullion movements, and is in a position to forecast fairly accurately the nature of each succeeding Weekly Return.

Although it is true that money may become so dear as to check all speculative movements in markets, yet, on the other hand, it is not when money is at its cheapest that business on the Stock Exchange is most active and sound. There must, indeed, be a fairly brisk demand for money for trade purposes if the Stock Exchange is to enjoy any real prosperity. Without trading activity, railway traffics must be poor and the spending power of the commercial classes and of the wage-earners must be curtailed. Before the world's accumulations of capital were so large, it was the experience of the Stock Exchange that business was at its best with a five per cent. Bank Rate. Since then, however, the value of money has scaled down somewhat, until at the present time a four per cent. Bank Rate may be taken to denote that general demand for money which leads to Stock Exchange activity. It is after a period of sustained Stock Exchange activity, when speculators, having made money in one market, have gradually widened the speculative circle until it embraces all markets, that the Bank of England Reserve should be a matter of careful study to the stockbroker and his clients. For, in such times as this, produce of all sorts, in addition to Stock Exchange values, suffers from inflation, until the speculative movement resembles a cone precariously balanced on its point, and the cone's basis of equilibrium is the Bank of England

Reserve. So that any depletion of the Reserve is apt to bring the whole speculative edifice toppling to the ground.

The Money Market, as an index to the trend of speculative markets, is indeed an instrument which requires no little experience to read it aright, for cheap money, which argues trading stagnation, is almost as fatal to Stock Exchange activity as is dear money, which is the result of undue inflation. At the outset of his career, a Stock Exchange clerk should make a practice each Thursday of studying the Bank Return, when it is posted in the Consol Market. And, having formed his own opinion upon it, he should study the thoughtful articles written upon the Money Market by the weekly financial papers. By this means the future stockbroker will acquire that familiarity with the Money Market without which he can never be a thoroughly capable member of the "House."

OPTIONS.—An Option is an engagement between two parties, A and B, whereby one, say B, agrees to pay A a sum of money for the right to "put" a certain quantity of stock or shares on him, or "call" the same of him on a given date or event at a price agreed upon at the time the option is entered into. For instance, B agrees to give A, say, $\frac{1}{4}$ per cent. for the "put or call" (or otherwise "double option") of £10,000 Consols a month ahead at 98. If at the termination of the period they stand at $98\frac{1}{2}$, naturally he "calls" them, and sells them, making a profit of $\frac{1}{2}$ per cent., less his call money of $\frac{1}{4}$ per cent.—making $\frac{1}{4}$ per cent. net to him. If, however, at

the call date they stand at $97\frac{1}{2}$, he “puts” them— with the same result.

The Rule bearing on options is as follows :—

RULE 76. All optional bargains for the Consols Account shall be declared at a Quarter before Three o'clock two days before the Account-day.

Optional bargains for a Foreign Settlement shall be declared at a Quarter before Three o'clock on the day before the First Making-up-day, or at a Quarter before One o'clock. Should that day fall on a Saturday, Options for any other day must be declared at a Quarter before Three o'clock, or on Saturdays at a Quarter before One o'clock.

It will be observed that the rule states the option “shall be declared”; this is the remnant of an old custom that B had to *personally* inform A that he put or called the stock exactly at the moment, namely, 2.45 p.m. As a consequence, when the public began to realise what option-dealing meant to them—that they could limit their possible loss at the start—the broker found it difficult to declare all his options at the stipulated minute, even by employing all his “House” clerks on the job. As usual, the members as a body brought common sense to bear on the difficulty, and decided that options should declare themselves automatically, namely, that if on the day of declaration the market price showed a margin of profit against the option price, the declaration was considered as made without personal notification. The rule stands unmodified to the present day.

Bucket shops take advantage of the option system, or rather a modified form of it, to suit their own peculiar tactics. They advertise, “Send in £5 for our B or C Scheme for option (single understood) of a

given amount of specified stock or shares." In the majority of cases they run the option themselves against the client—that is to say, instead of doing as an inside broker would and must, undoing it with a jobber who, having options both ways, is reasonably protected within his means—they take the risk themselves, and frequently, so soon as the ripening date has arrived, they temporarily influence prices by large purchases or sales of stock through members of the Stock Exchange: such orders coming on the market preclude option-holders from "declaring" their option and from making a profit.

When an option-dealer enters into a "put and call," he generally buys or sells half the amount, and as the market fluctuates he closes and reopens it. The party having the right of "put and call," or either, is also in a position to play with the market during the period for which the option is running. Take the supposititious case above. We will presume the purchaser of the option enters into it in the first week of July; he is aware he can buy or sell Consols on, say, August 1—the entering date of the deal—at 98 per cent. During the period they may rise to, say, 99 per cent.; he can sell at that figure, and has secured 1 per cent. profit, less his option money. On the other hand, if they fall to 97 per cent. the result is the same. Single options are the more general, the intricacies of the double option having no attractions for the general speculator. The call option is much the most popular, being analogous to a "bull" operation, and the general public almost invariably speculate "on the bull side."

CHAPTER IX

BROKER AND CLIENT

Advertising forbidden—Comparison with Wall Street—Common Ignorance of Brokers and Clients alike—"Bucket-Shops"—The Country Letter—How a Broker may acquire Information—"Putting a Client off."

THE question of the relations between a stockbroker and his client opens up a very much debated subject. It raises the whole argument as to how far a member of the Stock Exchange may legitimately endeavour to cultivate a *clientèle*. The Committee of the Stock Exchange are entirely opposed either to anything in the shape of advertisement for business purposes or to circularising the public broadcast, and so poaching upon the preserves of other stockbrokers. The Committee's utterance on this point is as follows :—

No Member of the Stock Exchange is allowed to advertise for business purposes or to issue circulars to persons other than his own principals.

Persons who advertise as Brokers or Share Dealers are not Members of the Stock Exchange, or under the control of the Committee.

A List of Members of the Stock Exchange who are Stock

and Share Brokers may be seen at the Bartholomew Lane entrance to the Bank of England, or obtained on application to

EDWARD SATTERTHWAITE,
Secretary to the Committee of the Stock Exchange.

COMMITTEE ROOM,
THE STOCK EXCHANGE, E.C.

Nothing could be more definite than this pronouncement, and any alteration of this regulation would so completely revolutionise the whole existing machinery of the Exchange, that it is extremely improbable that advertisement will be permitted to members of the Stock Exchange, in the lifetime of the present generation. Neither do I think it would be beneficial either to the general public or to the Stock Exchange community throughout the country that this regulation should be relaxed. It is true that in America advertisement is permitted to all stock-brokers who are members of Stock Exchanges, and that England is, at present, somewhat inclined to adopt American commercial methods. But, whatever the old country may advantageously learn from the United States in manufacturing matters, it is indisputable that, in the science of finance, whether in relation to banking or in relation to Stock Exchange dealing, the United States are several generations behind the United Kingdom. The first great desideratum of Stock Markets is stability, and in the interests of investors and stockbrokers the elimination of violent spasms of fluctuation is the great test of smoothly running Stock Exchange machinery. Now, the main characteristic of the New York Market is the sudden

waves of appreciation and depreciation which sweep over it, and this financial violence is due in no small measure to the liberty of advertisement which is enjoyed by stockbrokers in the United States. It is obvious that an advertising stockbroker, who is ready and willing to enter into serious market liabilities on behalf of complete strangers, as an advertising stockbroker must be, is bound to protect himself against the contingency of bad debts by demanding a cash deposit in the shape of "margin" or "cover" from his client. It is upon the "margin" system that speculative transactions are entered into in the United States. Although this system of "putting up margins" in cash on the part of the public does to a certain extent insure American brokers against the risk of dealing for men of straw, yet, in practice, it is found that this very system, instead of imparting, as might be imagined, additional strength to the Wall Street Market, does actually at times seriously increase the instability of American prices. And of this instability the system of "continuing" or "carrying-over" speculative transactions in America is another predisposing cause.

The cardinal difference between the speculative methods of Throgmorton Street and Wall Street lies in the fact that, while in London speculative transactions are "carried over" on Contango Days for the ensuing fortnight, in New York similar transactions are "carried over" only for the next twenty-four hours; so that in New York a fresh loan has to be negotiated daily for the "continuation" of stock. This daily necessity of renewing loans against speculative trans-

actions makes the Wall Street market exceedingly sensitive, and by way of further increasing the intensity of the market-thrills to which Wall Street is subject, the market in Call-Money in New York is situated on the floor of the Stock Exchange. And this market in Call-Money becomes at times a veritable bludgeon in the hands of the Wall Street "bears," for it need scarcely be explained that, when stocks are continued only until the following day, the rate of interest charged on Call-Money on a given day becomes in fact the contango-rate for all speculative transactions open on that day.

In order thoroughly to understand the exposed position of the "bull" speculator in America, it is necessary to imagine that a similar system prevailed in Throgmorton Street to that which is customary in Wall Street. If American conditions of speculation were in force in London, every day would be a Contango Day, and there would be an open market in rates of "contango," situated, let us say, in the Consol Market. Moreover, it would then be open to any powerful speculative clique which was anxious to break the market, to dash into the Consol Market and excitedly bid up for Call-Money until the rate of "contango" for the whole of the speculative account open was fixed at ten per cent., or some other similarly extortionate figure, as is frequently the case in Wall Street when there is the least stringency in the Money Market. Having thus created a flurry in the Money Market, it would require no very strong pressure of bold "bear" selling, when the account open upon speculative

account was at all top-heavy, to cause a temporary panic of greater or less intensity all round the "House." Then, if it were the London custom for stockbrokers on this side to advertise, as they do in America, the bulk of the speculative account would be open against cash-margins, as it is in America. By producing an artificial tightness in Call-Money, accompanied by an avalanche of speculative sales, speculative markets here would yield to speculative attacks with the same facility as they do in America, and cash-margins would forthwith begin to peel off, accompanied by consequent sales on behalf of speculators whose margins were exhausted by the collapse in prices. These sales on behalf of one set of exhausted speculators would further depress prices, and necessitate sales on behalf of other operators whose margins in their turn had been exhausted by the shrinkage in values which ensued on the first crop of forced sales.

Even without the market-sensitiveness which is produced by a daily carry-over, a crowd of "bulls" carrying speculative commitments upon narrow margins of cash deposits, is a deadly source of weakness to a market, as in any market-flurry which causes the sudden exhaustion of margins the collapse of one "bull" serves to precipitate the collapse of others. Yet the system of speculation on the deposit of a cash-margin is the inevitable corollary of the advertising stockbroker, who is open to deal with all comers. With the dawn of the era of advertisement on the part of members of the London and provincial Stock Exchanges, the stability of

English stock markets would disappear, and give place to a mercurial fickleness such as is the chief characteristic of New York. As, however, the great function of a soundly constituted Stock Exchange is to provide stocks and shares with negotiability and stability of value, subject, of course, to the fluctuations of supply and demand which are primarily regulated by the dearness or cheapness of money, it is obvious that the universal adoption of speculation on margin in the United Kingdom would be a deplorably retrograde movement for the Committees of the various Stock Exchanges to sanction.

As, then, it is, as we think, out of the question to expect that advertisement will be permitted to English stockbrokers, it remains to consider by what legitimate means may a member of the Stock Exchange seek to extend the frontiers of his business. And the only means of expansion which is open to a broker lies through his own clients. A broker must aim at so transacting his business for such clients as he possesses as will practically turn them into his own advertising agents. Neither is this quite such a difficult feat as it may sound at first. Reference has been made in a previous chapter to the gregarious habits of speculators, and to their tendency to talk Stock Exchange "shop" on all possible occasions, and this practice is so prevalent as to make clients who have reason to be satisfied with the treatment they receive at the hands of their brokers, into very ardent, though often quite unintentional, advertising mediums of their own particular broker's abilities. We are aware, of course,

that it is considered quite the right thing among certain members of the Stock Exchange to assume an attitude of careless indifference and complete ignorance as to the present position and the past history of the concerns in which they are perpetually dealing. Indeed, we have heard the opinion quite seriously advanced by a broker with a very good business connection, which, it need hardly be said, was got together by no exertions of his own, that it is rather bad form, and savouring too much of the "bucket-shop," for a member of the Stock Exchange to possess any very intimate knowledge of the intrinsic values of securities. This same happy ignorance extends even to the Weekly Official Statement issued by the Bank of England. This invaluable key to the Money Market, a copy of which is posted up in the Consol Market each Thursday, is entirely disregarded in normal times by the average broker. In times of great monetary stringency, a small knot will gather round the board to which the statement is affixed, and will gaze vacantly at the figures, until one of the few authorities on Bank Statements which the "House" possesses arrives on the scene, when he is generally begged by a chorus of some half-dozen voices to expound the meaning of the thing. It is probable that not more than fifty members of the Stock Exchange could jot down even a tolerably coherent synopsis of a Bank of England Weekly Statement.

Such, then, is the technical knowledge possessed by the average Stock Exchange member; and, on the other hand, there is the great British public, which

yearns for information, and whose attitude is that of careful attention, as a rule, whenever a member of the Stock Exchange can be induced to talk of market matters. The plain truth is this—without, perhaps, absolutely requiring another to think for him on Stock Exchange subjects, the average investor does look to his stockbroker to help him to think. He does want an avenue of thought opened up for him; the respective merits of two or three speculative investments concisely put before him stimulate his own powers of discrimination. And, considering the substantial commissions earned by stockbrokers, even in these days of keen competition, it is not unreasonable that the public should expect this much service at their broker's hands. So great is this demand for suggestions, if not for definite advice, on the part of the public, that, failing to obtain what they require from members of the Stock Exchange, the public turn to the "outside broker," who is only too willing to paddle their financial canoe for them. So strong is the public desire for something definite in the shape of a lead in matters financial, that, in spite of the constant exposures of unscrupulous dealing on the part of "outside" brokers, the amazing fashion in which the public continue to resort to these charlatans is wholly inexplicable on any other ground than that the average investor or speculator would rather receive advice which he half suspects to be bad than receive no advice at all.

While we are on the subject of "outside brokers," we must again draw attention in the strongest manner possible to the fact that people entering into Stock

Exchange transactions enjoy a greater safeguard in dealing with a member of that institution, from the fact that he is subject to the control of the Committee, who will always attentively consider any complaint against a member, and afford the client effective remedy without cost; but, in dealing with an outsider, an investor or speculator has no control over the broker outside the law—which, we all know, is very elastic.

At one time there was great public agitation on the subject of the public being admitted as spectators to the Stock Exchanges in London and the provinces. Many unscrupulous persons took advantage of this movement to start so-called "Open Stock Exchanges" under various titles; the public swarmed to them, followed their recommendations, and accepted the "bucket-shop" tips instead of using their own common sense. The "bucket-shops" ran the bargains against their own clients, "working the market" to suit their own book, with the inevitable spider and fly consequence.

It is only fair to say that intelligent provincial stockbrokers are very much alive to the growth of the "outside" stockbroker, and that the inability of the jobber-dominated London Committee to cope with this evil is causing much heart-burning in cities such as Manchester, where the advertising "outside" broker is becoming almost as numerically strong as he is in London, allowing of course for the difference in population of these two centres. Why should the Law, which exercises a benevolent control over solicitors, and promptly descends upon any unqualified practitioner who usurps the functions of a solicitor, allow a

dangerous body of unqualified stockbrokers to usurp the functions of members of the Stock Exchange, and to inflict grievous injury upon the general public by tampering, with unskilled and unscrupulous hands, with the delicate question of investment? If the London Stock Exchange Committee, supported by the Committees of the principal provincial Stock Exchanges, were to press for legislation to stamp out the "bucket-shop" evil, we cannot but think, so numerous have the scandals been in connection with these unqualified practitioners of recent years, that restrictive legislation such as protects the public from the ministrations of the quack doctor, would be readily passed to protect the public from the "outside" broker. Only so recently as March 1903, no less a legal authority than the Master of the Rolls, in giving judgment in the Court of Appeal in the case of *Clarke v. W. W. Duncan and Company (in liquidation)*, stated his opinion thus frankly of "outside brokers" and their methods. He said:

"The transaction by bought and sold notes was only part of the machinery to show what the bet was. The statement as to 'delivery' of the stocks was absolute nonsense, and the term 'carrying-over' was not applicable; it was merely applying the language of Stock Exchange transactions to what was in reality a bet."

This view of the "outside" broker, as enunciated by the Master of the Rolls, was concurred in by Lord Justices Romer and Cozens-Hardy; and with such an array of legal talent condemning the whole system of the "outside" fraternity, it would certainly appear that, in response to a properly supported petition by

duly accredited stockbrokers, a short Bill should be introduced into Parliament to repress the "bucket-shop" evil with a strong hand.

What is true of the London client is equally true of the client in the country, particularly if that client should happen to be a provincial stockbroker. In many of the large provincial Stock Exchange centres the London financial newspapers are not delivered until midday, but, even where they are obtainable the first thing in the morning, a client would always prefer a personal interview with his local broker to whole columns of newspaper advice. The duty, then, of writing each evening a fairly lengthy account of market-doings devolves upon the broker who is the London agent to a firm of provincial stockbrokers. And not only is this the duty of the London man, but it is greatly to the mutual interest both of the London agent and of his stockbroking correspondent in the country, that a London letter shall be forthcoming every morning such as shall be worth reading to any client who may drop in to the office of the country broker. With three or four competing firms of brokers dividing the business of a provincial town between them, experience has proved that the largest and certainly the choicest share of such business will steadily gravitate to the office of the firm which is in daily possession of an intelligently written London letter. It becomes the habit of the directors and the managers of the local banks to call in every morning to hear the London man's account of the previous day's events. In the wake of the banking community the most important of the investing class of the

neighbourhood will be sure to follow, and so it comes to this, that the country broker, from being, perhaps, no more than a provincial stockbroker in decent credit, may steadily climb, with the assistance of a good London letter, into the position of the leading broker of his town. It need hardly be said that this prosperity of the provincial man will be reflected in the increased business which he will then be in a position to send to his London agent for execution in Throgmorton Street. Not only so, but a London letter of the sort here described will serve to bind the London man's country connection to him with bands of steel; so that, instead of the death of a partner in the country business who was well disposed towards him causing the London man suddenly to lose an important slice of his business, as is so often the case in such a personal matter as the London agency of a country broker, the esteem in which his daily letter is held by the clients of the provincial broker will greatly improve his chance of retaining the business, no matter what alterations may take place in the *personnel* of the country firm.

It may appear that we are treating such an almost obvious matter as the importance of writing an adequate letter with somewhat unnecessary emphasis. But the practice of London stockbrokers is systematically to limit their correspondence and to curtail their letters to the most bald enumeration of business done and contracts enclosed, with perhaps a jerky remark or two at the conclusion to the effect that "Yankees were good, Home Rails flat, and mines neglected." A less illuminating piece of composition than the usual

stockbroker's letter it would be difficult to find; but in these days of inexpensive clerks, who both know shorthand and can use a typewriter, there is really no excuse for this slapdash style of correspondence. However, a lad at the outset of his Stock Exchange career can comfort himself with the reflection that very few brokers take the trouble to write more than mere apologies for letters, and that the man who devotes a couple of hours daily to this important business detail will certainly be repaid by the expansion of his connection amongst appreciative clients.

No one, of course, can deny that a certain amount of work is necessary to enable a broker to write to the country intelligently on market matters, or to interview a London client with a tolerable amount of success. But it is essential that at the outset of his career a lad should begin to acquire the information necessary to the attainment of these accomplishments. The number of companies which are dealt in on the Stock Exchange is so great, that it is quite beyond the power of any individual to converse or write with intelligent knowledge upon more than a small proportion. At times it must happen to the best informed member of the Stock Exchange that he will find himself in the painful predicament of being confronted by a statistically-minded client who has laboriously toiled over the last ten half-yearly balance-sheets of some obscure brewery or of some half-forgotten mine, and who is intimately acquainted with every financial *faux pas* committed by the directorate of this unhappy concern. Not only does the client possess all this

information at his finger-ends, but he somewhat unreasonably expects his broker to be endowed with an equal amount of knowledge. For it is only fair to say that, if the broker is inclined to err on the side of ignorance, the besetting sin of the client is to be serenely unconscious of the existence of any other stocks beyond the particular dozen or half-dozen in which he himself is interested. In an emergency of this kind a broker's only course is perfect candour; he must endure his client's thinly-veiled contempt for his ignorance of the exact borrowing-powers which are entrusted to the Board of the Kamtschatka Gold Concessions, he must plead the importance of this knotty point, and express a desire to consult authorities and to inform his client fully on the subject by letter. Possibly the broker will, by so doing, fall somewhat in his client's esteem, but he may then, by leading his client on to discuss leading market features, in no small measure reinstate himself in the good opinion of his interviewer. By no means can the broker hope to know everything, but at least he may reasonably hope to inspire his client with the idea that he knows something.

It is essential that a stockbroker should realise that the public and the Stock Exchange regard financial knowledge from two widely different standpoints. From the "House" point of view, that broker is a demigod who can reel out the current quotations of some hundred or so active speculative stocks, and this facility is not difficult to acquire by any broker who is habitually telegraphing market fluctuations to provincial centres. Such knowledge, however, impresses

a client but little. The client's idea of information lies rather in the direction of the last few dividends declared by a company, and of intimate knowledge of the individuals who compose the directorate of a concern. The client's line of thought, especially if he be a shareholder, ranges from the original prospectus on through a succession of balance-sheets down to the last published statement of a company's liquid resources. It is on these very points that the stock-broker is unfortunately habitually ignorant, but the broker should learn to look at investment and speculative questions from the public's point of view, and he can only hope to do this by constant reading. In the days of his earliest clerkship, a lad should accustom himself to reading with close attention the dissections of balance-sheets and prospectuses, which appear regularly in the leading financial "weeklies." He should read the various thoughtful essays which are written on the same subject by different pens, and he should learn to analyse the at times widely different conclusions at which these writers arrive. The study of the deliberately formed opinions of the weekly financial journalist is to be preferred to the more hurried articles which appear in the financial "dailies." However, all financial reading is good so long as it is comparative and analytical. The road to financial knowledge does not lie in the direction of reading and swearing by one particular financial paper. Information is to be acquired by obtaining a copy of the balance-sheet or prospectus which is the leading feature under review in any week, and by perusing it and its figures by the light of the writing of several

leading financial journalists. In this way a novice in City matters will rapidly pick up the art of submitting an array of figures to a searching critical survey.

All this requires a solid application to business after office-hours, but beyond that it requires nothing. For all the leading financial weeklies are to be found at the various Public Libraries which are liberally scattered over London and its suburbs. It is tedious work, this slow building-up of financial knowledge, and at first the best plan is to concentrate the attention upon, say, three leading stocks in each market, and industriously to familiarise one's self with their past history. From this nucleus of knowledge a stock-broker can always steadily expand his horizon of information as he finds his memory's powers of retention develop with practice. Taking, for example, the past five years of the financial history of the London and North-Western, the Great Eastern, and the London and Brighton Railway, and familiarising himself with their details, the budding stockbroker will have laid an excellent groundwork of knowledge as to Home railway matters. Similarly, in American railways, a study of the history, say, of Philadelphia and Reading, of Louisville and Nashville, and of Chicago, Milwaukee, and St. Paul, will lay bare the workings of an American "coaler" railroad, of a cotton-carrying road, and of a grain-carrier running into Chicago. And so in each leading market of the "House" the figures of three prominent companies should be studied, until a good all-round knowledge of railway, mining, and industrial finance has been obtained.

Not one member of the Stock Exchange in fifty

ever attempts to acquire such knowledge, but, without it, it is impossible either to discuss financial events with a client, or to write an informing letter on Stock Exchange subjects. Also, while he is thus laboriously equipping himself for a stockbroking career, his work will at times appear to be but labour in vain. For the future stockbroker will often be disheartened by the fact that the fat commissions and the good things of the Stock Exchange world appear to be rather bestowed upon the happy-go-lucky ignoramuses who can afford to belong to half a dozen clubs and to ride prominently with a fashionable pack of hounds. And this great truth we will not seek to deny; but even then your West-End lounge, whose social circle is wealthy and influential, and your first-flight man to hounds, are both under the necessity of possessing a solid working partner with a sound business knowledge, who is capable of carrying out the dry details of the business which is introduced by these almost amateur members of the Stock Exchange. If it be not your lot in life to hunt in Leicestershire, you may at least aspire to fill the not inglorious position of one day supplying the business brains in partnership with a more fortunate individual who does.

Nothing so greatly militates against the growth of a broker's *clientèle* as anything partaking of the nature of a dispute with a client. Although the broker may finally adjust a disputed bargain so as to meet the views of a client who considers that his instructions were wrongly or negligently carried out, yet the dispute with his broker always rankles afterwards in the client's mind. And it must be always

remembered by the embryo broker that the speculative world is a small one, and that incidents connected with the Stock Exchange monopolise a large share of the conversation at clubs both in London and the provinces. It requires but a very shadowy grievance against his broker to impel a client to hold forth for hours to a circle of his fellow-speculators as to how "inferentially badly" he was treated by So-and-So of Throgmorton Street, and this is the very thing which a competent stockbroker should at all times strive to avoid. Beyond this, a stockbroker occupies an extremely confidential position as regards his client, and even in these days of competition and of "cut" commission, he is remunerated for his services on a fairly lavish scale. In justice to his client, he must conduct his business with such care as to render any dispute, practically speaking, impossible; and his own self-interest lies in the same direction, because a contented client is a broker's best, and indeed almost sole advertisement.

In the case of a mining share under "bucket-shop" control, for instance, the stockbroker's duty to himself is obvious. He must ignore the "bucket-shop" and deal "inside the House," even if the "freest market" lies "outside." But in the same circumstances a stockbroker's duty to his client is not quite so obvious. To begin with, a stockbroker should at all times, so far as possible, encourage his client "to have a mind of his own." With the best intentions in the world, it is always a difficult matter for a broker to give advice as to the probable immediate course of a market. For there are so many events which

influence Stock Exchange prices, that, although a broker's opinion of the intrinsic merits of a share or a security may be perfectly correct, yet some political upheaval or some spasm in the Money Market may completely alter what appeared to be the obvious future course of prices. Therefore a broker should at all times be exceedingly cautious as to deterring a client from following the bent of his own inclinations in markets—a proceeding which the "House" terms "putting a client off." Now, "putting a client off" buying a rubbish share in the Mining Market is at all times a most ticklish proceeding. The reason is, that such shares, owing to the low levels at which they normally stand, are capable of being exceedingly easily manipulated. It will readily be understood that it requires no very great command of money to absorb such a quantity of a low-priced share standing, say, at 2s. to 2s. 6d. as will temporarily "rig" the quotation up to, say, 7s. to 8s. Now, although the share in question may be the veriest rubbish, and although the slipperiness of the "bucket-shop" which works the "rig" may have been exposed in open Court times without number, yet the profits to be made by a client upon such a transaction are larger than in almost any other form of Stock Exchange speculation. In the instance cited above, the client who bought this low-priced rubbish at 2s. 6d. would make a profit of 200 per cent. if he sold his shares at 7s. 6d. Now, it is almost only in low-priced mining shares that a lucky speculator can hope to realise a profit of 200 per cent. in the course of a few short weeks. Therefore "putting a client off" the

purchase of mining rubbish may quite possibly result in a broker building up for himself everlasting enmity with a valued client. That is one side of the question.

On the other hand, an experienced operator is aware that such a "market-rig" in rubbish shares is but too frequently the precursor of a reconstruction scheme. And, in the Mining Market, a reconstruction scheme is generally accompanied by a calling-up of fresh capital, which capital is raised by levying an assessment upon all the existing shareholders. On the eve of such assessment, it is the custom of the share-pushing "bucket-shop" first to quietly pick up as many shares as possible, and then to galvanise the market into life by means of the widely distributed laudatory circular, and so suddenly to enhance the price of the shares and to serve them out among an entirely fresh body of shareholders. Beyond the profit which the "market-riggers" make upon buying rubbish shares cheap, and afterwards dribbling them out upon the public during the "rig" at a greatly increased price, they further succeed by this manœuvre in getting together a nearly entirely fresh crowd of shareholders. This is an important factor in securing the success of a reconstruction scheme. For the shareholder of some years' standing in an unsuccessful mine, who has long suffered the anguish of hope deferred, is not a very hopeful source from which to appeal for fresh funds. But the new shareholder is naturally not so indisposed to put his hand into his pocket for further capital, and so the reconstruction scheme goes through and fresh capital

is provided with which the derelict property acquires a fresh lease of life, and the friends and nominees of the wirepullers who act as the company's directors are put in possession of funds out of which to pay themselves their fees for acting as the company's directors. Then, the "rig" having accomplished its purpose, the shares are no longer artificially supported, but gradually slip back to their old level of 2s. to 2s. 6d. The victims of the "rig" then find themselves possessed of shares for which they possibly paid 7s. 6d. originally, and upon which they subsequently paid a further 5s. assessment, and which are now once more quoted at 2s. to 2s. 6d.—a somewhat disastrous transaction. The risks of dealing in rubbish shares, and the losses sustained in consequence, fully counterbalance the handsome profits which a speculator makes if he only has the luck and the judgment to take his profit when it is offered to him, instead of foolishly lingering until it is too late. For this reason, even at the risk of "putting his client off," I think that a clever stockbroker, whose object it is steadily to build up a permanent *clientèle*, should at all times notify his client, when sending him the purchase contract for such shares, that the property is in the hands of an "outside" clique of market-manipulators, and that he will be prudent to content himself with a moderate profit rather than hold on too long and so possibly find himself in all likelihood liable either to pay an assessment or else to forfeit his shares.

CHAPTER X

STOCK EXCHANGE BOOKKEEPING

The "Jobbing" and "Checking" Books—Profit and Loss—Loan Account—The Broker's Balance-Sheet—Stock Exchange Subscriptions and Entrance Fees—The Clearing-House—The Jobbers' Ledger—The List Book—The Contango Book—The Contango Checking Book—The Clearing-House Sheets—Tickets—Making-up and Making-down—Splits—Selling-out and Buying-in—Rights—"Take and Deliver" and "Difference" Sheets—The Number Book.

MEMBERS' systems of bookkeeping differ somewhat; so much work must be compressed into a limited time during a settlement, that it is most essential that the form of accounts should be as simple as possible, compatible with keeping a full record or trace of every transaction, especially the passing of stocks or shares. We will therefore proceed to give a specimen of the simplest method of Stock Exchange bookkeeping, which, while recording efficiently the necessary information, is perfectly free from complications. To begin with, the whole of the books either in a broker's or jobber's office are started by the principal's jobbing book, of

which for the sake of convenience we give another specimen—

JOBGING BOOK.

Bought Side.
June 16th, 1902.

Sold Side.
June 16th, 1902.

Security.	Amt.	Jobber's Name.	Price.	Client's Name.	Security.	Amt.	Jobber's Name.	Price.	Client's Name.
A. T. U. Pf.	1000	Robinson	2/9	(Unnecessary for jobbers.)					(Unnecessary for jobbers.)

In the first column is the name of the security; in the second the amount of stock or number of shares; in the third the name of the jobber; in the fourth the price; and in the fifth the name of the client (in brokers' jobbing books). This column which is used for the client's name in the broker's case is of no use to the jobber, who has no clients, but deals solely with members of the Stock Exchange.

In its ruling and shape the checking book is a replica of the jobbing book, except for the fact that, in its most convenient form, it contains a ruled cash column into which is thrown out the calculation of the value of the stock dealt in, as shown below—

CHECKING BOOK WITH CASH COLUMN.

Secy.	Amt.	Jobber's Name.	Price.	Calculation.			Secy.	Amt.	Jobber's Name.	Price.	Calculation.		
A. T. U. Pf.	1000	Robinson	2/9	£137	10	0							

It will be seen that if one clerk works out the value of the stock dealt in on the contract note (see p. 50) above, and that if another clerk works out a similar but independent calculation in the cash column of the checking book, two objects are secured. In the first place, it is impossible that a contract should leave the office containing an erroneous calculation; and, in the second place, the checking book calculation having thus been confirmed by the contract note, the jobbers' and clients' ledgers can be posted unhesitatingly with this already verified result.

In the case of a jobber, it should be understood that it is the key to successful jobbing that his book should be even at the close of each day. In all pure jobbing it is the function of the jobber to act solely as a middle man, and therefore he should always finish his day with a perfectly "even" book; that is to say, his purchase transaction should be undone by corresponding sales, and his sold transactions by corresponding purchases. In practice this

position of a perfectly even book can at times only be arrived at by the jobber cutting a loss upon one or more bargains in which he cannot otherwise get even, and it is this cutting of losses at the end of the day which enables the jobber to approach the market on the following morning with a perfectly unbiassed mind. The man with an uneven book is always tempted to regard the market with a bias which is begotten of that book, and a biassed mind is fatal to profitable jobbing. In the case of the jobber whose book is even, as it should be at the end of the day, it will be readily seen that the difference between the calculations of the stock which he has bought and those of the stock which he has sold represents the profit or the loss in which his day's transactions have resulted. For instance, should the total of the "bought" side calculations in the checking book be less than the total of those on the "sold" side, then the jobber has made a profit which is equal the difference between the totals of the two sides. Should, however, his day's transactions have resulted in a loss, the total of the checking-book calculations on the sold side will be less than those on the bought side. If this balance of profit or loss be taken out daily, and posted in a memorandum book, kept for that purpose, then at the end of the account the result shown by this book should correspond with the difference between the respective debtor and creditor balances as shown by the jobber's ledgers. To make the checking book the complete and valuable check which it should be upon the result of each fortnightly settlement, it is necessary to take out, in addition to

the daily profit and loss, the profit or loss which the jobber makes by the contango or carrying-over operations which he transacts on the carrying-over days, at the opening of the account.

So far as bookkeeping is concerned the operation of contango consists of all speculative transactions which are open being brought down in the jobbers' and clients' ledgers at a range of prices which is fixed by the officials of the Committee as the prices ruling at twelve o'clock on the Contango Day, and this set of prices is termed the "making-up prices." The profit and loss account is therefore not affected by these contango entries, which are made at uniform prices and therefore balance one another. But profit and loss is affected by the difference between the rates at which a jobber borrows money for contango purposes and the rates at which he lends money for the same object.

In the case of "contango," as has already been explained (p. 144), the client who wishes to carry over stock from one account to another instructs his broker to arrange this matter for him. The broker then usually approaches the jobber with whom he originally dealt, and with whom he consequently has the stock or shares open, and arranges with him, if the original operation has been a purchase or a "bull" transaction on behalf of the client, to lend the stock to the jobber, and to borrow money against it at a rate of interest until the next settlement, when the arrangement may be repeated or not according to whether the client has closed the transaction or otherwise in the meantime. This borrowing of money

by the broker on behalf of the client releases the latter from the necessity of paying for his stock for the current account. When a jobber is approached by a broker in a transaction of this sort, he (the jobber) quotes two rates of interest, at the lower of which he is prepared to borrow the money and lend the stock, and at the higher he is prepared to do the reverse. The jobber, therefore, at the end of the day's contango operations has to carry to his profit and loss account the difference between the cost of the money he has borrowed and the interest he has obtained on the money he has lent. This item is entered in the General Ledger under Profit and Loss Account, as Profit and Loss on carrying-over rates.

It sometimes happens that the position of the floating account at the settlement shows a scarcity of stock or shares instead of scarcity of money. In other words, that the market is oversold, that is to say, that there are more operators who have speculatively sold, generally called "bears," than there are speculative purchasers anxious to lend stock in the open market, usually called "bulls." In such case, it is obvious that such operators who desire to lend stock are in a position to demand a premium for the loan thereof from such operators who are anxious to borrow stock of which they are short, against their speculative sales. This premium is termed a "backwardation," and is the exact antithesis of a contango, and places the "bear" operator under the necessity of paying a fine to obtain his stock, and the "bull" in the happy position of being able

to exact a toll for lending his stock, instead of having as usual to pay a rate of interest for borrowing money thereon.

To summarise the jobber's Profit and Loss, therefore, it is made up first of all of the result of his contango operations at the commencement of the account, and secondly, of the several results of his daily dealings. These two items taken together should represent the difference between the cheques the jobber receives and pays at the settlement.

In the case of a broker the profit made by him during the Stock Exchange account is represented in his General Ledger by Commission Account. There are times when a broker enters into speculative Stock Exchange transactions on his own account, but these are outside the realm of pure broking, and may be compared to the case of a distiller drinking his own whisky. In such cases, the broker or the partner in a firm of brokers who speculates on his own account figures in his own clients' ledger as client to himself. Such speculative tendencies on the part of a broker are viewed somewhat askance by the Committee, and in the case of a broker's failure, in which it is revealed to the Official Assignee that such transactions have been a contributory cause of failure this point under Rule 171 tells greatly against the defaulting broker when he applies for re-admission to the "House."

FAILURES.

RULE 171. Upon any application for the re-admission of a Defaulter, a Sub-Committee, of not more than three Members, to be chosen in alphabetical rotation, shall investigate his con-

duct and accounts ; and no further proceedings shall be taken by the Committee with regard to his re-admission, until the Report of such Sub-Committee shall have been submitted, together with a balance-sheet of the Defaulter's estate, signed by himself.

The attention of the Sub-Committee shall be directed,

- 1st. To ascertain the amount of the greatest balance of shares or stock open at any time during the Account, the current balance at his bankers, as well as the balance of shares or stock open at the time of failure ; and whether the transactions were on his own account, or on account of principals, specifying the amount of each respectively.
- 2nd. To ascertain the total amount of money paid by him ; specifying the sums collected in the Stock Exchange ; and those received from principals ; and the money or other property brought forward by himself.
- 3rd. To ascertain the conduct of the Defaulter preceding and subsequent to his failure ; and to inquire of the Official Assignees whether any matter, prejudicial or otherwise to the Defaulter's application, has transpired at any meeting of creditors, or has officially come to their knowledge elsewhere.

In addition to the Committee's attitude towards defaulting members of speculative tendencies, whether brokers or jobbers, it is certainly contrary to the interests of the speculative public that they should appeal for advice on current stock markets to a broker whose judgment is warped by his own speculative commitments. Having explained what is the bookkeeping method of treating such transactions, we should strongly warn any lad on the threshold of a Stock Exchange career against allowing himself to be tempted into the quicksands of speculation.

To return to the legitimate profits of a broker, Mr.

Justice Walton's decision, given on 23rd December 1903, in the case of *Andreae, Wallace, and Company*, members of the Stock Exchange, *versus* *Burk*, a client of theirs, is the most recent judicial pronouncement upon the charges with which a broker is legitimately entitled to debit his client's account. The origin of the dispute was the client's inability or unwillingness to pay differences due by him on a speculative account which he had opened through *Andreae, Wallace, and Company*. For the defence, Mr. Rawlinson, K.C., pleaded every reason which ingenuity could suggest for the defendant's being relieved of any liability under the various contracts which had been issued.

The first point raised by Mr. Rawlinson, K.C., was as to whether it was allowable for stockbrokers to employ their own money in carrying over stock which was open with them on a client's behalf; and further, if stock were so carried over by stockbrokers, whether they were entitled to charge a carry-over commission in addition to the rate of interest on the *contango*. On both of these questions the judge decided that the brokers were in order in the charges they had made. Indeed, it would go hardly at times with the speculative public were not their brokers prepared to extend to them carry-over facilities which are not always obtainable elsewhere, in narrow and restricted markets. And, without such friendly assistance from their brokers, the public would be frequently compelled to ruthlessly sacrifice their holdings on the eve of the account, when jobbers are usually reluctant to load themselves up with stock. It would be but

poor encouragement to a broker, if, having thus extended a helping hand to his client, he found himself precluded thereby from charging the usual carry-over commission.

Moreover, it must be remembered that it is very rarely the case that a client lands his broker with a bad debt in the first account during which his speculative transaction is open. A stockbroker's bad debts almost invariably occur in cases where stocks have been carried over for a lengthy period. And the small charge made for carry-over commission is a very requisite insurance premium against an ultimate bad debt, of which the broker runs a risk when stock is carried over for an indefinite period.

Mr. Justice Walton's decision that a broker, so long as he notifies his client, is entitled to charge a commission from both clients when he executes his first client's order by dealing with an outside financial house, was also sound law and common sense, and, indeed, it encourages a broker to take some personal trouble to do his client's business to the greatest advantage. For instance, the broker who does no more than walk over to the Consol corner to deal in Canadian Bonds, will in all probability not do his client's business so well as if he had taken the trouble to go over to the banking-house, which is the house of issue for Canadian Government loans, and had there dealt without the intermediary jobber. And, as Mr. Justice Walton rightly decided, the broker who takes the trouble to negotiate his client's business in this manner with the "shop" direct is certainly entitled to a commission from the client, and

also to a commission from the banker, whose business he has likewise been instrumental in facilitating.

Beyond these points, Mr. Justice Walton did but confirm previous legal decisions when he held that, in the case of Stock Exchange transactions, executed by a member of the Stock Exchange, according to Stock Exchange Rules, the contracts could not be set aside by any effort on the client's part to plead the Gaming Act. We need hardly say that, on the other hand, no member of the Stock Exchange, unless he were prepared to face summary expulsion by the Committee, would ever attempt, under shelter of the Gaming Act, to wriggle out of a contract issued to a client. In all the history of the Stock Exchange, no such attempt has ever been made, and herein lies the enormous advantage which the public derive from dealing with a member of the Stock Exchange rather than with an "outsider." This decision confirms the broker's right to employ his own capital, should he choose to do so, in carrying over the speculative purchases of his client, and it also confirms his right, when he does so, to charge a carry-over commission in addition to the rate of interest on the money so lent. We see, therefore, that the broker's legitimate sources of income are—

- (1) His rate of commission upon purchases or sales made on a client's behalf.

- (2) The carry-over commission upon such speculative transactions as he may carry over from one account to another.

- (3) The interest earned upon such portion of his capital as he may choose to employ in carrying over the speculative commitments of his clients.

With reference to this last item, the method of bookkeeping is as follows:—An account is opened in the general ledger entitled “loan account,” which is first of all debited with the amount of money which the broker from time to time employs on carry-over purposes, and in this account is entered the interest which this money earns during each settlement. This item of interest is in turn debited to the account of the client or clients in the Clients’ Ledger on whose behalf the stock is carried, and is also credited to profit and loss account in the general ledger. The profit and loss account of a stockbroker is therefore made up of the balance of commission account plus interest earned on capital employed on loan account.

To produce the half-yearly balance-sheet of a Stock Exchange firm, it is necessary that the following items should appear:—

<i>Dr.</i>	<i>Cr.</i>
Partners’ Capital	Cash at Bankers
Partners’ Stock Exchange Subscriptions	Petty Cash in Office
Clerks’ Stock Exchange Subscriptions	Cash in Loan Account against Securities carried over
Office Expenses—	Profit and Loss. Credit Balance
Rent of Office	
Clerks’ Salaries	
Telegraphic and Telephonic Expenses	
Stationery and Books	
Postages	
Subscription to Official List	

At times the simplicity of this balance-sheet may

become complicated by the fact that the credit balance of profit and loss may have been engulfed in writing off suitable provision against bad and doubtful debts incurred during the six months' working; or at other times the half-year's profit may be increased by a bad debt incurred in a previous period realising more than the estimated value to which it had originally been written down.

In practice the Stock Exchange subscriptions are payable in a lump sum at the commencement of the Stock Exchange year in March. It is, however, sounder bookkeeping to divide these items equally between the two half-years.

The following tables give the rates of annual subscription and entrance fees to the Stock Exchange for both members and clerks:—

SCALE OF ANNUAL SUBSCRIPTIONS TO THE STOCK EXCHANGE.

For all Members admitted before 25th March 1876, and for Members admitted with two Sureties before the 25th March 1879 . . .	£21	0	0
For Members admitted with three Sureties after the 25th March 1876, and for all Members admitted after 25th March 1879 . . .	31	10	0
For all Members admitted after 25th March 1899 . . .	42	0	0
For Authorised Clerks	31	10	0
For Unauthorised Clerks and Entrance Fees	12	12	0

SCALE OF ENTRANCE FEES TO THE STOCK EXCHANGE.

For Members with three Sureties	525	0	0
For Members with two Sureties	262	10	0
For Authorised Clerks	52	10	0
For Unauthorised Clerks—Red stud in buttonhole	10	10	0
For " " with entry to Settling Rooms only, Blue stud in buttonhole	8	8	0

N.B.—The Entrance Fee for Clerks, Authorised and Unauthorised, must be paid by any Member introducing a Clerk during the Current year, unless the Clerk is in place of one for whom his introducer has already paid an Entrance Fee during the same year.

A Member introducing an Authorised Clerk for whom he has paid during the Current year an Entrance Fee and Subscription as an Unauthorised Clerk, will only be called upon to pay the difference between the Entrance Fees and Subscriptions for Authorised and Unauthorised Clerks.

By Order of the Managers,

(Signed) W. F. PEROWNE, *Secretary*.

As to the individual drawings of partners during the half-year against profits earned, it is impossible to lay dawn any particular rule—this being a matter of partnership agreement. On the completion of the half-year, however, the profits are divided *pro rata* among the partners in accordance with the terms of the partnership deed. And, having deducted from his allotted proportion of the profits the partner's individual drawings during the half-year, the credit balance shown to be then standing under his name in the General Ledger is the balance of profit due to him at the conclusion of the half-year.

Having thus disposed of the Profit and Loss portion of Exchange bookkeeping, we will return to the consideration of the method in which the Fortnightly Settlement is adjusted.

The object of all aids to the adjustment of the settlement is to eliminate, so far as possible, all redundant middlemen from each transaction; to bring together, in fact, the original buyer and the original seller, so that the actual stock necessary for

the completion of the settlement passes through as few hands as possible. This end is principally achieved by means of the Stock Exchange Clearing-House, by the passing of tickets and by the processes of "making up" and "making down."

THE CLEARING-HOUSE was originally established by private enterprise, under the sanction of the Stock Exchange Committee. As a result of several pamphlets on the subject issued by Mr. W. T. F. M. Ingall, he was approached by a firm of accountants with a proposal to introduce and work the system which he advocated, if a certain number of members would give the new enterprise their support. Despite the lukewarm attitude of the Committee, this Clearing-House was established, and did excellent work for a time. Owing, however, to the weak internal organisation of the original Clearing-House, the whole system broke down, and the Clearing-House movement was for a time suppressed by order of the Committee. The weak spot proved to be that sufficient care was not taken to preserve the tracing through of individual transactions; with the result that firms who were members of the Clearing-House found themselves under the necessity of delivering stock to and accepting cheques from firms of whose financial stability they knew nothing. As the whole of the Stock Exchange system depends upon the credit of individual members, this lax organisation of the Clearing-House constituted an unfair risk to those members who in times of financial stress had exercised due caution in only dealing with firms in first-class credit. The consequences of the suppres-

sion were so crippling to business, that the Stock Exchange Committee found themselves compelled to inaugurate an official Clearing-House under improved organisation. This institution is termed the "Settlement Department." But although the Settlement Department is now an official institution, a member of the Stock Exchange is under no compulsion to belong to it. With only very rare exceptions, however, all members of the "House" who are engaged in active business are subscribers to the Settlement Department.

Under the regulations of the Settlement Department, each member of the Clearing-House sends in on the evening of the Contango Day lists of what stocks he has to take of, and to deliver to, any other member of the Clearing-House. These lists are made up under the heading of the name of the stocks with which the Clearing-House concerns itself. The Clearing-House from time to time strikes out from the lists of stocks with which it deals, such securities as may temporarily have fallen out of speculative favour, in which there is consequently little active dealing. On the resumption of activity in these temporary deserted markets, stocks are again restored to the Settlement Department. The Department exists for the convenience of its subscribers, and its revenues rise and fall in sympathy with the amount of stock which passes through its hands at the adjustment of each account. It is therefore to the interests of the Settlement Department to promptly re-list in the Clearing-House any stock or group of stocks in which there is a revival of activity. We append a specimen form of list:—

SETTLEMENT DEPARTMENT LIST.

Date—End December 1903.

Name of Stock—De Beers Deferred.

Name of Member—John Jones & Company.

To be left blank.	Number of Shares.				Surnames first in Alphabetical Order.	To be left blank.	Surnames first in Alphabetical Order.	Number of Shares.				To be left blank.
	Thous.	Hund.	Tens.	Units.				Thous.	Hund.	Tens.	Units.	
					PLEASE WRITE PLAINLY AND IN INK. To take shares of To deliver Shares to							
		1	2	5	Albert		Anderson	3	2	0		
		2	2	0	Beeton	5	Beach	2	4	0		
		1	9	6	Carmichael		Calcraft	1	1	0		
		3	0	0	Dent		Cox	1	0	0		
			2	4	Elsinore		Dean	4	7	0		
	1	1	8	0	Fleming			2	1	4	0	
	2	0	0	0	Gordon	10	Balance to take	2	0	2	5	
	4	1	6	5	Hamilton			4	1	6	5	
						15						
						20						
						25						
						30						
						35						

In cases of failure, subscribers having accounts open with the defaulters should apply to the department to ascertain what may be their consequent liability. All stocks and shares entered on the printed list of subscribers, as those which the department settles, must be returned. On the lists the names must be placed alphabetically, and surnames before initials. The lists must be cast up, and the totals clearly stated.

Registered Stocks.—It will greatly facilitate the settlement, cause tickets to be placed earlier, and tend to prevent splitting, if members who have a balance of stock to take or deliver, and who themselves issue tickets or require tickets for delivery, either for a part or the whole, will write against the amount required the words "for transfer"; and also, if members who have balances with the department, which they intend to settle by passing on tickets in the market, will state on their lists the amounts required for such purpose.

Original issuers of tickets requiring them to be passed to any one or more of their immediate sellers, must signify the same on their list, specifying the amount of stock for which the tickets will be issued, and the name of the member to whom it is to be passed, and those who require tickets in particular amounts must notify the same on the list.

Scrip Stocks.—If the declaration of a defaulter, who is a subscriber to the settlement department, takes place on the ticket day, all his lists in scrip stocks and shares will be rejected from the department, the items corresponding with his lists struck out of all subscribers' lists in which his name may appear, and their balances altered accordingly.

For subscribers who have to take stock, to the extent of the balances which their list or lists show, tickets will be issued, and the issuers will be informed to whom the tickets have been passed.

Where subscribers are in possession of tickets issued by other members of the House, these will be accepted and passed on account of balances they may have to take (if they are in such amounts as will pass unbroken through the trace); thus reducing the amount for which the department will have to issue tickets. Tickets must be sent in before one o'clock.

It is the practice of the department to alter items that disagree one with the other by adopting the entry for the smaller amount, and to strike out items that have no contra. In cases of scrip stock where, in consequence of such alterations, a ticket has to be passed by the department to the member whose entry for the larger amount proves to be correct, or whose entry which had no contra is correct, he may pass on such ticket to the member who made the error, by whom the stock must be delivered; but if that member elects to deliver the stock to the member whose entry is correct, it must be delivered before 12.30. And also the member receiving tickets in respect of his own balance and electing to deliver the stock to his immediate buyer, must do so before 12.30; but intermediaries on the trace are bound to pay their sellers up to two o'clock.—Rules 68 and 116. (21/6/93.)

All tickets are to be passed through the accounts at the making-up price of the first making-up day, and the stock or shares paid for at that price.

For notices of alterations and omissions, in lists of South African, West Australian, and West African mining shares, members must apply in the basement on the morning of the contango day; and for those in other shares and stocks, on the morning of the ticket day.

Lists should be sent in by six o'clock in the evening, or earlier if possible.

In the specimen list it will be observed that the stock to be cleared are the Deferred Shares of De Beers Consolidated Mines Limited. The list is sent in to the Settlement Department by a firm of the name of John Jones and Company, who make to take 4165 shares of other members of the Clearing-House, while they make to deliver 2140 shares. On balance, therefore, John Jones and Company make to take 2025 De Beers Deferred shares from the Settlement Department. To enable the Clearing-House to deliver these registered shares to the client of John Jones and Company, it is necessary that that firm of brokers should hand to the Clearing-House the name or names into which the shares are to be transferred. The bulk of the Clearing-House business is transacted at night, therefore the lists sent in on the evening of Contango Day by the various members are compared and checked during the same night. Any discrepancies between the lists are adjusted by the rough-and-ready method of taking the minimum amount to be correct; for example, if Robinson's list shows that he makes to take 200 Eries from Watts, whereas the latter's list shows that he only makes to deliver 100 Eries to the former, the Clearing-House assumes the smaller number (in this case 100) to be correct, and informs Robinson's clerk, when he calls next morning to inquire if his lists are in order, that his list disagrees with that of Watts to the extent of 100 Eries, and that the number of shares he makes to take of the Clearing-House have been reduced by that number. Under such circumstances, it is the duty of Robinson's

clerk to take his Jobbers' Ledger round to Watts' office and promptly investigate how the error has arisen. Should the amount of 200 Eries in Robinson's list prove after all to have been correct, the 100 shares in dispute is delivered direct by Watts to Robinson without the intervention of the Clearing-House.

The clearing clerks make a "trace" through, from the taker of shares to the deliverer, recording the name of each member of the Clearing-House through whom the "trace" goes on a special ticket, which is handed to the deliverer on the morning of the Pay Day. Any "deliverer" on such a ticket has the right to deliver to and demand payment from his immediate neighbour on the "trace"—namely, the firm with which he originally dealt. The onus thereupon is shifted to their shoulders to deliver either to their immediate neighbour on the "trace" or to the final payer, the point being that no member shall be forced to give a night's credit to any other whom he does not know, or has reasons to distrust. This power is seldom exercised.

This is the method by which the passing of stock is facilitated by the Clearing-House. It remains now to show by what system of entry the cash items are adjusted against these Clearing-House transactions, and in order to do so it is necessary to here explain in which way the Jobbers' Ledger is posted. This book, although called a Jobbers' Ledger, does in fact contain all accounts open with members of the Stock Exchange, whether they be brokers or jobbers. For the convenience of enabling four clerks to work simultaneously from the Jobbers' Ledger, this book

is almost invariably divided into four sections, each section containing a separate portion of the alphabet. The Jobbers' Ledger is usually subdivided into firms whose names begin with the letters A to E, F to L, M to S, T to Y. This subdivision of the Jobbers' Ledger into four small ledgers also makes the book of a much handier size to carry round to the office of other firms for the purpose of comparing and adjusting disputed accounts. A Jobbers' Ledger is only used to contain the transactions of one Stock Exchange account. And when the entries pertaining to each account have been balanced, the four sections of the Jobbers' Ledger are tied together and put away for future reference. That is to say, when the difference between debit and credit entries in the Jobbers' Ledger agrees with the daily total of Profit and Loss Account as taken from the checking book, in the case of a jobber, or when, in the case of a broker, the difference between the Jobbers' Ledger balance and the Clients' Ledger balance is equal to the total amount of commission earned, during the account, as shown by the total of the commission in the contract book, the account is said to be balanced, and a fresh lot of Jobbers' Ledgers are opened for the new account.

The method of posting the Jobbers' Ledger is to enter each bargain on a folio, which is headed with the name of the firm or member with whom the bargain was done. Such entry consists of the date, quantity and name of stock or shares, and price, sales on the debit side, purchases on the credit side, and the cash represented is "carried out" in the cash column (see accompanying example).

JOBBER'S LEDGER.

Dr. H. Robinson. Cr.

1895						1903					
		°/a		16	9						
Dec.	22	1000 G. E. Ry. Ord. . . .	85½	855		Dec.	18	2000 G. E. Ry. Ord. . . .	84½	£1690	
		1000 do. C.H.	85	850				Cheque . .		15	16 9
				£1705	16 9					£1705	16 9

It will be observed in the above specimen account that it opens with an entry of 16s. 9d. on the debit side, which is described as °/a. This is the form in which at the opening of a new set of Jobbers' Ledgers, the small cash items under one pound are brought forward from the previous account. Being too small to be worth while adjusting by cheque, they are carried forward in the fashion illustrated above. It is essential that these petty amounts are agreed with the firm into whose account they are brought forward, and that a proper list is duly kept of them, or else it would be impossible to balance the account into which they are thus introduced. Further, it will be noticed that on the sold or debit side of the account with H. Robinson that there is a transaction in 1000 Great Eastern Railway Ordinary. This entry conveys the information that the firm to whom the Jobbers' Ledger belongs has sold 1000 of this stock to H. Robinson on 22nd December at the price of 85½.

North Deferred		British Ordinary.		Baltimore		and Ohio.	
Dent . . .	5	Bingham . .	2	Atwell . .	200	Swift . . .	180
Holder . . .	2	Russell . .	4	Cohen . .	40	Weston . .	50
James . . .	1			Rodwell . .	30		
	<hr/>		<hr/>		<hr/>		<hr/>
	8		6		270		230
		Balance .	2			Balance .	40

It will be observed first of all in this book, that the stocks are posted in alphabetically arranged groups according to the markets they are respectively dealt in. For instance, the Home Railway Group are all kept together, the American Railway Group occupy another portion of the book. Mines in the Westralian market are arranged in their order, but distinct from those dealt in in the Kaffir market, and the West African market. Similarly, Home Industrial Stocks, South American Railways, and every important market in the Stock Exchange, occupies an alphabetically arranged section of its own in the List book. In the case of large firms of brokers whose business takes them into every active market in the "House," the List book is for convenience divided into two, three, or even four sections. This subdivision of the List book enables two partners and perhaps two authorised clerks simultaneously to adjust different sections of the account on Contango Day, each working in a separate market. To prevent confusion between the names of clients who have stock open, and the names of members of the Stock Exchange with whom the firm have dealt, it is an excellent plan to enter the names of clients in red ink, so that

they are readily distinguished from members of the "House," whose names are entered in black.

On the morning of Contango Day, the broker goes down to the "House" with his list book in his hand, and also a book similar to the jobbing book, which is specially reserved for the booking of contango transactions, and is only taken to the "House" on Contango Days. Should the broker find himself in the position of having two clients in the same stock, one of whom is a "bull" and the other a "bear," he adjusts the carry-over between these two by "taking in" stock from the "bull" and lending stock to the "bear," and carrying over in the market merely the balance remaining open against the name of the client who is the larger operator in that particular stock. Such contangoes between clients it is usual to adjust at the rate which is ruling in the open market on Contango Day at noon. In the case of clients not carrying over, but who intend taking up or delivering stock, their names are entered in this book in the usual way, but with the abbreviation T.U. written against the names of those taking up stock, and with Del against those delivering stock.

In the case of a jobber the List book is a more simple affair, for, to begin with, a firm of jobbers usually confine their operations to one, or at the outside two markets; this naturally keeps their list in a smaller compass than that of the broker. Moreover, if a firm of jobbers is systematically jobbing on an even book each day, the take and deliver sides of their List books will respectively balance each other; but in the case of a firm of jobbers who do not job even,

their List book will show a balance of stock open. These balances as shown by the List book should exactly correspond with the stock of which they are either "bulls" or "bears" on the morning of Contango Day.

The members of the firm, or the authorised clerks upon whom devolves the carry-over of the account, enter the Stock Exchange on the morning of Contango Day equipped therefor with their List book and contango book. The latter is in make, shape, and ruling identical with the jobbing book. The entries which are made therein differ from the entries in the jobbing book, on the important point that in lieu of price the carry-over rate is entered in the price column whether it be a backwardation or a contango. The reason why all prices are omitted is that all contango operations are uniformly adjusted at making-up price, to which we have already referred in this chapter. At the adjustment of the account it is necessary that a "bull" should lend his stock to a "taker-in," who arranges to finance it for him. The dealer or broker acting for a financial house which affords this accommodation to the "bull" is termed the "taker-in" of the stock. A broker, therefore, who wishes to "give on" stock on his client's behalf books the transaction with the "taker-in" on the sold side of his contango book; and again, a broker who wishes to borrow stock of a client of his who is a "bear," becomes himself in this case the "taker-in" of stock either from a jobber, or another broker, and books the transaction on the bought side of the contango book.

At the completion of the carry-over, which in an account of normal dimensions has generally been

arrived at by one o'clock, the contango book or its various sections are taken to the office, and there posted into the contango checking book. It is at this point that the contango operation is shown in its dual capacity, because every contango transaction consists both of selling stock for the settlement which is immediately impending, and of buying it back for the next account—this is the operation of a contango when entered into on behalf of a "bull." When stock is carried over for a "bear" operator, the transaction is reversed—and the stock is bought for the approaching settlement and sold for the next account.

The main use of the contango checking book is to express the single entry made in the contango book in its double form of a sale for one account and a purchase for the next at the making-up price; but whereas the entry in the account which is drawing to its close merely takes the form of a sale or a purchase at the making-up price, in the case of the reversing entries for the next account, the opposite transaction is entered at the making-up price, and in addition to this there is the charge made for interest for money lent for the duration of the new account for carrying-over purposes.

From this contango checking book the entries are made in the jobbers' ledgers for the expiring account to close the stock carried over, and in the new set of jobbers' ledgers which are opened at the beginning of the new account, the reversing entries are posted again at the making-up price plus the interest charge mentioned above, thus reopening the stock on behalf of the client for the account just commencing.

So soon as the current jobbers' ledgers are posted from the contango checking book, the list is corrected to show the balance of stock then remaining open, after the contango adjustments have been allowed for. From this amended List book the Clearing-House sheets are next made out and sent to the Settlement Department, where they are dealt with by the clerks of that department, as explained above.

In order to pass the necessary entries in the various accounts in the jobbers' ledgers to indicate such stocks as were dealt with by the Clearing-House had been closed through that medium, a new account entitled Clearing-House is opened in one of the jobbers' ledgers. For convenience, it is usual to open this under the little-used letter Z. From the List book into this Clearing-House account are posted the various items which make up the different Clearing-House lists. This account is cast out at the making-up prices, and presents the following appearance:—

CLEARING-HOUSE.

Dr.

Cr.

50	Ontario Capper.	22	220		40	Ontario Simpson	22	176	
20	" Dalton.		88		200	Louisville "	110	4400	
100	Louisville Jacks	110	2200		100	Union P. Dalton	81	1620	
50	" Spinks	"	1100		2000	L. & N. W. Ry.			
50	Union P. "	81	810			Spinks . . .	145	2900	
1000	L. & N. W. Ry.				50	Rio Tinto Smith	50	2500	
	Jacobs . . .	145	1450						
40	Rio Tinto Drew	50	2000						

It will be observed that in the Clearing-House there is the name of a Stock Exchange firm against each entry. These names are placed there to show that a corresponding contra entry has been made in the Jobbers' Ledger accounts of the firms indicated, closing them so far as that stock is concerned, although possibly leaving a difference as regards the cash, and also leaving open any other stocks in these firms' several accounts, of which the Clearing-House does not undertake the settlement.

The account open in such stocks and shares as the Clearing-House does not include in its list is greatly facilitated by the passing of tickets. This system as regards *Registered Stocks and Shares* has been in existence from time immemorial. For convenience, tickets are also frequently issued by the purchasers of "bearer" securities. Say A has sold stock to B, B to C, and so on to Z. The last named, on the Ticket Day, generally in the case of stock to bearer, and invariably in the case of registered stock or shares, makes out a "ticket" on which is set forth the amount of stock or number of shares, the price, and consideration, and in the case of registered securities the name, address, and description of the transferee; the ticket is made out in a printed book with a perforated counterfoil, similar to a cheque-book, and at its foot the ticket bears the name of the member (generally a broker or arbitrageur, for this purpose the same thing) who pays for the security on delivery, and the name of his seller to whom he gives it (see example herewith)—

All Dividends, New Shares, or other advantages are
hereby claimed.

No. 0000.

1000 Electrical Aerial	
Transmission @ 2/9.	£137 10 0
Stamp	0 16 0

To John Smith,
of The Manor House,
Colchester.

Given to Y.
28th June 1902.

No. 0000. This number to be inserted if this Ticket be divided, otherwise the New Ticket will not be paid for.

Consideration . .	£137 10 0
Stamps	0 16 0
Price 2/9	

1000 Electric Aerial Transmissions.

To John Smith,
of The Manor House,
Colchester.

Given to Y.
28th June 1902.

W. Jones & Co.,
Pay.

When a member's clerk receives a ticket it is entered in a "ticket book." It is unnecessary for him to retain details about the transferee. It is sufficient for his purpose that he notes the number of the ticket, the amount of shares or stock, from whom he takes it and to whom he passes it. That noted, at the end of the day, he credits in his jobbers' ledger the man he took it from, and debits the man he passed it to at the making-up price as if the actual securities had passed, and pays or receives next day any difference between the making-up price and that at which he dealt with the several parties.

There are two other methods of adjusting amounts of stock standing open between members of the Stock Exchange—namely, "making-up" and "making-down." On the Contango Day the clerks meet in the checking-room and compare their respective lists. It may be

that A has to deliver to B and take of C; C, on the other hand, has to deliver to B and take of A. It is obvious that the stock would be passed by A to B, B to C, and from C to A again. The trio then arrange to "make up" the stock to save the necessity of needless delivery and counter-delivery. The operation of "making-up" is completed by passing the necessary debit and credit entries at the making-up price in the jobbers' ledger, and by this means the needless passing round of stock is avoided. With regard to "making-down," supposing B to have bought stock of A, and that B for his own convenience wishes the stock to be delivered to C by A, B requests A to make-down the stock to C, B makes the necessary entry at the making-up price, to close the stock with A, and A makes the necessary entries to close the stock with B and open it with C, also at the making-up price. It is absolutely essential to a make-down that A's consent should be obtained to the transaction, because by this arrangement A agrees to deliver his stock to C and to accept C's payment therefor.

SPLITS.—This is a specially interesting elaboration of the ticket system, since an explanation of it will make it clear why a purchaser of a large number of shares or of a big block of stock presents several transfers for the amount. In the course of its peregrinations a ticket may come into the hands of a jobber who has sold, say, one thousand shares but bought that number in several smaller amounts. To meet the apparent difficulty, he forthwith proceeds to "split the ticket," by retaining the original ticket

in his possession and issuing in its place the requisite number of tickets of the same tenor as to the Payer and the price, but with the total amount of stock on the original ticket split up as required amongst the brokers or dealers from whom he bought stock in small parcels. As, however, this entails on the transferee the expense of extra transfer fees, and perhaps extra stamps, the splitter is liable for the extra expense; and, in order that the transferee's broker may make the necessary apportionment and claim, the splitter is obliged to announce on the new tickets which he issues, "Split by" "Splits" and the method of their collection and payment are a fruitful source of disputes between clerks.

Two items relative to the adjustment of the account remain to be dealt with, namely—

- (1) Selling-out and Buying-in; and
- (2) Rights.

In the case of "selling-out," a deliverer, not having received a ticket by 2.30 p.m. on the Ticket Day, giving him the necessary particulars wherewith to make out a transfer for delivery before 2.30 p.m. on the Pay Day, has the right to put up the shares for sale for cash through the Selling-out Department. However much a man may desire not to resort to such extreme measures, the requirements of his own, or his client's, capital may make it a necessity. The process is to send notice to the Selling-out Department to sell out the shares—that department, if it effect the sale, "passes a name" to the seller-out, who delivers on it. He opens a fresh account with the Selling-out Department for the name, by a contra entry with the party who has

not delivered him a name, and closes that account by delivery of the transfer. The seller-out collects loss and brokerage from the party against whom shares are sold out. Due notice "on the boards" in the House must be given of both buying-in and selling-out—but details will be found in the appended rules.

RULE 105. The deliverer of Shares or Stock who shall not receive a Ticket by half-past Two o'clock on the Ticket-day, may sell out such Securities up to Three o'clock; but if the Security be one of those undertaken by the Settlement Department, written notice stating from whom a Ticket is required must be given to the Department at least one hour before such selling-out.

This notice must be given by all Members wishing to sell out Securities undertaken by the Department, and in no case shall such Securities be sold out before Twelve o'clock.

If a Ticket, except for Securities dealt in in the Mining Markets, shall not have been regularly issued before Twelve o'clock, the issuer thereof shall be responsible for any loss occasioned by such selling-out. Should, however, a Ticket have been regularly put into circulation, the holder thereof at Two o'clock shall be responsible for any selling-out on the Ticket-day. If the selling-out take place on the Pay-day, the holder of the Ticket at Three o'clock on the Ticket-day shall be liable;—unless such Ticket was in the Settlement Department at Three o'clock, in which case the holder of such Ticket at Five o'clock shall be liable. In case of selling-out on any subsequent day, the holder of the Ticket at Three o'clock on the previous day, or at One o'clock on Saturdays, shall be liable, unless he can prove undue delay in passing the Ticket.

Should the deliverer allow Two clear days from Three o'clock on the Ticket-day to elapse without availing himself of his right to sell out, his Buyer shall be relieved from all loss in cases where the Ticket has not been passed in consequence of the public declaration of any Member as a Defaulter. If a Seller

does not deliver Shares or Stock within Thirteen clear days from the date of the Ticket, the intermediate Buyer from whom he received the Ticket shall be released, and the issuer thereof shall alone remain responsible for the payment of the purchase-money.

In the case of "buying-in," the rules of the "House" allow ten days' grace before this can be resorted to, the reason being that so many formalities have to be gone through before a transfer can be ready for delivery, that some grace is absolutely necessary. Further, in this case, the member paying suffers no inconvenience with regard to his capital—indeed, he has the use of the money for that period. A transfer may have to be sent to several parties to sign as transferors. It may be necessary to get it signed by directors and officials of a company (and directors are, occasionally, over-nervous in these matters); it may have to be sent a long distance for certification; in fact, there are many reasons for delay, and it is only justice to provide grace for these details to be completed.

The process of "buying-in" is similar to that of "selling-out": the order is given to the Official Department, who carry out all the details, notify the buyer-in that the stock or shares have been bought, who thereupon closes the account open in his books—opens one with the Settlement Department, which is closed by delivery of the security, and the differences and charges settled in the same way.

Intermediaries are released from financial responsibility in cases of buying-in and selling-out where they can prove the *laches* are not theirs.

RULE 106. The deliverer of Shares or Stock dealt in in the Mining Markets, who shall not receive a Ticket by Half-past Two o'clock on the Ticket-day, may sell out such Securities up to Three o'clock ; but if the Security be one of those undertaken by the Settlement Department, written notice stating from whom a Ticket is required must be given to the Department at least one hour before such selling-out.

This notice must be given by all Members wishing to sell out Securities undertaken by the Department, and in no case shall such Securities be sold out before Twelve o'clock.

If a Ticket for such Securities shall not have been regularly issued before Two o'clock on the day before the Ticket-day, the issuer thereof shall be responsible for any loss occasioned by such selling-out. Should, however, a Ticket have been regularly put into circulation, the holder thereof at Two o'clock on the Ticket-day shall be responsible for any selling-out on that day ; and the holder of the Ticket at Six o'clock on the day before the Ticket-day shall be responsible for any selling-out on the Pay-day, unless the Ticket was in the Settlement Department at Six o'clock on the day before the Ticket-day, in which case the holder of the Ticket at One o'clock on the Ticket-day shall be liable.

In the case of selling-out on any day after the Pay-day, the holder of the Ticket at Three o'clock on the previous day, or One o'clock on Saturdays, shall be liable, unless he can prove undue delay in passing the Ticket.

Should the deliverer allow Two clear days from Three o'clock on the Ticket-day to elapse without availing himself of his right to sell out, his Buyer shall be released from all loss in cases where the Ticket has not been passed in consequence of the public declaration of any Member as a Defaulter. If a Seller does not deliver Shares or Stock within fourteen clear days from the date of the Ticket, the intermediate Buyer from whom he received the Ticket shall be released, and the issuer thereof shall alone remain responsible for the payment of the purchase-money.

RULE 107. When Shares or Stock are sold out, if a Ticket be not given within half an hour after the time of sale, the transfer may be made into the name of the Buyer.

RULE 108. If Shares or Stock are not delivered within Ten

days, the issuer of the Ticket may buy in the same against the Seller at or after Half-past One o'clock on the Eleventh or any subsequent day after the date of the Ticket, or, in the case of Mining Securities, for which Tickets have been issued on the day before the Ticket-day, on the Twelfth or any subsequent day after the date of the Ticket.

In the case of Companies which prepare their own transfers, Shares or Stock may be bought-in on the Eleventh, or any subsequent day after the earliest date on which a transfer can be procured.

One hour's public notice of such buying-in must be posted in the Stock Exchange ; the notices to be posted not later than Half-past Twelve o'clock. On Saturdays notices shall be posted by Half-past Eleven o'clock, and no buying-in shall take place before a Quarter-past Twelve o'clock. The name into which the Shares or Stock are to be transferred must be stated in the order to buy-in, if required by the Manager of the Buying-in and Selling-out Department. The loss occasioned by such buying-in shall be borne by the ultimate Seller, unless he can prove that there has been undue delay in the passing of the Ticket on the part of any Member, who shall in that case be liable.

Shares or Stock thus bought-in and not delivered by One o'clock on the following day, or by Twelve o'clock on Saturdays, may be re-purchased for immediate delivery without further notice, and any loss shall be paid by the Member causing such re-purchase.

In case the Official shall not succeed in executing an order to buy-in, the notice of such buying-in shall remain on the General Notice Board, and the Official may buy-in Shares or Stock, if not delivered, on any subsequent day without further notice, but not before Two o'clock, or on Saturdays before a Quarter-past Twelve o'clock.

RULE 109. The issuer of a Ticket who shall allow Thirteen, or, in the case of Mining Securities for which Tickets have been issued on the day before the Ticket-day, Fourteen clear days from the date of his Ticket, or, in the case of Companies which prepare their own transfers, Thirteen clear days after the earliest day a transfer can be procured, to elapse without buying-in or attempting to buy-in Shares or Stock, shall release his Seller from

all liability in respect of the non-delivery of the Securities, unless he shall have waived his right to buy-in at the request, or with the consent of his Seller ; and the holder of the Ticket shall alone remain responsible to such issuer for the delivery of the Securities.

“Rights” have been and still are to an extent one of the most fruitful sources of dispute. They are dealt with by Rule 110, but still require a little explanation as to the nature of the rights a buyer acquires when he purchases stock. We may premise that Tickets or Name-forms convey a clause that “all rights are hereby claimed.” Rights may consist of: The numbers of bonds about to be drawn; shares issued in a company as bonus or dividend; the right to subscribe for new shares, etc. etc.

This notice on the “ticket” claiming rights is a precautionary measure against lapse of time under Rule 110, but it should be noted that this is not sufficient, and a clerk should be specially deputed to take daily note of such rights as are published in the “House” and in the papers, and take complete charge of the rights book, entering all such claims as bargains, *to be duly checked* next day.

RULE 110. The Buyer is entitled to new Shares or Stock issued in right of old, provided that he specially claim the same in writing from the Seller not later than Four o'clock (One o'clock on Saturdays) on the day preceding the latest day fixed for the receipt of applications. Claims should be entered as bargains, and as such be checked in the usual manner.

Notwithstanding the provisions of the above Clause, the Seller shall be responsible to the Buyer for the new Shares or Stock, although claimed later than Four p.m. on the above-named day, if he be in possession of the same: and should he not be in possession of the new Shares or Stock, he is bound to render every assistance to the Buyer in tracing the same.

When practicable, claims are required to be settled by Letters of Renunciation. No Member shall be required to accept Letters of Renunciation after Half-past Two (Twelve o'clock on Saturdays) on the latest day fixed for the receipt of applications.

Where no Renunciation Letters are issued, all payments as and when required by the Company are to be advanced to the Seller by the Buyer, who may demand a receipt for the same, such payments being considered as for delivery of Stock open for the Special Settlement.

If the new Shares or Stock cannot be obtained by Letters of Renunciation, the Secretary of the Share and Loan Department, subject to the approval of the Chairman or Deputy-Chairman or Two Members of the Committee for General Purposes, shall fix a price at which the new Securities may be temporarily settled, and which may be deducted by the Buyer from the purchase-money of the old Securities until the Special Settlement.

The Committee will not entertain any dispute relating to unchecked claims, unless brought before them within Ten days after the Special Settling-day.

The labours of the contango and ticket days are complete when the contangoes, the Clearing-House entries, the makings-up, the makings-down, and the tickets are posted in the jobbers' ledgers, and the transfers are made out relative to stock to be delivered, which are represented by the tickets remaining in hand when the passing of tickets is finished. There only remains, then, to make out the "Take and Deliver" and "Difference" Sheets. These sheets show any remaining oddments of stock and the cash balances of all accounts in the jobbers' ledgers, when the stock originally open has been closed by making-up, making-down, tickets, and Clearing-House. When the cash entries relating to these methods of adjustment have been posted at the "making-up prices," as

explained above, all stock which was originally open under the names of various members of the House in the jobbers' ledgers and the cash entries relative thereto will be found to be closed, and nothing but the cash "differences" of the account will remain open to be brought down on the difference sheets, and to be settled by the payment and receipt of cheques on the final day of the settlement, whilst the balance of the real stock, which remains open, will now be found to be open with "Clearing-House Account" and "Ticket Account," which accounts figure under letter Z in the jobbers' ledger. The stock to be received and paid for and the stock to be delivered and claimed for in "Clearing-House Account" and "Ticket Account" is then brought down on the "difference sheets." When this has been done, it is possible to take out a rough balance of the account on the evening prior to Pay Day. This rough balance is arrived at, in the case of a broker, by taking the difference between the various cash items which he makes to pay to, or to receive from, his clients, and the various cash items which he makes to pay to, or to receive from, the members of the House. These cash "differences," together with the sums which the broker makes to pay and to receive for stock, ought to equal the amount of commission he has earned during the account, as shown by "Commission Account" in his general ledger. In the case of a jobber, the rough balance on his difference sheet ought to equal the profit or the loss on his contango operations and his jobbing transactions during the account, after allowing, of course, for any stock which he may be delivering

from "Loan Account" or be paying for under the same heading. It has been explained above, that when a member of the Stock Exchange employs his own capital in the continuation of stock, these con-tango operations are entered in the general ledger to an account called "Loan Account." The advantage of taking out a rough balance on the eve of Pay Day is obvious. It enables the head clerk of a Stock Exchange office to verify his position before the scrimmage of Pay Day begins, and his sole remaining responsibility on Pay Day is to keep his juniors to their work collecting the "differences" due: so that, on the afternoon of the settlement, he may pay in to his bankers as nearly as possible the whole of the money due to his firm.

Tickets and Clearing-House are best treated as personal accounts. The total amount of stock to be taken or delivered under those items is entered on the "sheet," although there may be several tickets out for each stock. As each ticket attached to a dribblet of stock comes in, the sheet is altered so that the amount of stock still remaining undelivered is perpetually displayed in the "Take" sheet.

With regard to a ticket for Securities to Bearer, the original deliverer of the stock it represents cannot refuse to accept it, although he may not care to take the cheque of the eventual taker-in. But he has the right to compel his immediate buyer, namely, the member with whom he originally dealt, to pay him before 12.30 for the stock he would otherwise have to deliver to an unknown or dubious payer. In the ordinary way holders of tickets can deliver on such

tickets up to 2 p.m. Stock not passed on tickets and transfers for registered securities must be paid for up to 2.30 p.m.

At 2.30 money balances due to or payable by Clearing-House or Tickets should be taken out from the Sheets. Lists of amounts collectable in different districts in the neighbourhood are made out for the messengers and office-boys, who hurry off to collect the same in time to have them entered in the cash book and paid in before the banks close; and later on, by about 5.30 p.m., a principal or responsible clerk visits the bank to ascertain if there are any "returns," namely, cheques returned owing to financial difficulties of the drawers. In active times this is the most anxious moment of the day, if fluctuations have been very heavy during the account.

In earlier days, before the ticket system for bearer securities was established, and when Stocks passed from hand to hand, each taker or deliverer "took the numbers" of the Securities in a number book. Now the record is confined to the eventual taker and deliverer—the intermediaries being eliminated by the ticket system and Clearing-House.

In the case of registered shares, it is usual to note in the number books the names of transferor and transferee set forth on the transfer deed, besides the distinctive number of the shares on the Company's Share Register. The number books having been entered up with the details of stock delivered, they, with the entries in the cash book (payments and receipts during the day), are duly posted in

the various jobbers' and clients' ledgers, and the jobbers' ledgers are ready to be taken out next day by the clerks, to compare, where necessary, with other offices, to correct petty errors, which of course are bound to occur among so many rapidly made entries.

CHAPTER XI

THE STOCK EXCHANGE AS A CAREER

Necessity for "Influence"—Conditions of Entrance—"Authorised" and "Unauthorised" Clerks—A Broker's Office preferable to a Jobber's—Effects of Competition on Financial Stability.

To a youth who intends to adopt the Stock Exchange as his career in life, no better advice could be given than that he should spend one portion of the period of his clerkship in the office of a stockbroker, and another portion of his novitiate in the office of a jobber, so that the whole of the routine of Stock Exchange business may be familiar to him by the time he is in a position to start in business on his own account. For the work done by each of the two classes of Stock Exchange members is so distinct, that it is only by gaining a thorough insight into the methods of both of them that a man can fairly claim to have an absolute knowledge of the intricacies of the business. It is as well that the parents or guardians of a youth whose ambition it is to become a member of the Stock Exchange, should clearly understand at the outset, that unless they are possessed of sufficient influence to secure his early admission to

the Stock Exchange or the Settling Rooms as a clerk, a lad may spend years of his life in a broker's or jobber's office without thereby advancing a single step forward towards securing admission to the "House" as a full-blown member.

This is a most important fact to recognise; for every year it is becoming increasingly difficult, owing to the keen competition, to obtain admission to the Stock Exchange in the capacity of clerk. Existing members of the Stock Exchange are naturally anxious to obtain admission for one or more of their sons, in order that they may assist in carrying on the business which their fathers have created. There are bankers, also directors of public companies, and other members of the plutocracy, who are possessed of such Stock Exchange patronage as will endow their sons with a respectable income as soon as they are qualified to earn it by obtaining their membership. Furthermore, we find youthful sprigs of the aristocracy crowding into Throgmorton Street in larger numbers every year, backed by the social influence wielded by their families. In these circumstances, it is obvious that a boy without influence who enters the office of a member of the Stock Exchange may, in spite of his possessing considerable abilities, find himself constantly passed over in favour of fresh-comers, until he finally drifts into the exceedingly hopeless backwater of Stock Exchange clerkship, with a steadily diminishing prospect, as the years go over his head, of his ever being admitted within the sacred portals of the "House" itself.

Perhaps we can most readily make it apparent how

dismal is the outlook for a lad without influence who adopts the Stock Exchange as a career, by saying that his position, unless his early admission to the "House" is arranged at the outset, becomes almost analogous to the position of an unarticled clerk in a solicitor's office. Exactly in the same way as a solicitor's unarticled clerk may, by the display of exceptional ability, combined with a certain amount of good fortune, have his articles presented to him by a gratified employer, so a Stock Exchange clerk with no family influence to push him forward may, by some lucky accident, so impress his employer with his value that his introduction to the Stock Exchange as a "House" clerk may be his reward. With increasing competition, however, instances of solicitors' clerks being presented with their articles, and of Stock Exchange clerks being admitted to the Settling Rooms as the reward of their own exertions, are becoming rarer every year. Indeed, in making the comparison between a solicitor's unarticled clerk and a clerk in a Stock Exchange office who is not allowed to enter the Stock Exchange, we are hardly putting the disadvantage under which the mere clerk in a Stock Exchange office labours sufficiently strongly. For the legal profession is unacquainted with the sudden rushes of business, followed at times by a year or two of monotonous idleness, such as are the characteristics of that most sensitive business in the world—the business of the Stock Exchange. And in times of idleness, when members of the Stock Exchange are perforce compelled to reduce their working expenses to the veriest minimum, it is the

ordinary clerk who is not admitted to the "House" who is apt, through no fault of his own, suddenly to find himself bereft of his employment.

For, although the clerks who have the entry to the "House" may be receiving higher salaries, so that a greater economy would be effected by their departure, yet the very fact that an annual subscription is payable to the Stock Exchange on their behalf gives them security of tenure of office which the mere office hack does not enjoy. Furthermore, the discharge of "House" clerks entails a formal notice of the termination of their employment being sent in to the Committee. This notice is posted up in the Stock Exchange, thereby drawing public attention to the fact of the firm's being under the painful necessity of curtailing expenses. Now, in a business like that of the Stock Exchange, which, after all, is an edifice built upon the credit of its members, anything so calculated to throw a cloud on his own credit as the public announcement of the reduction of his establishment, is the last step which a member would voluntarily take when bad times settle down upon Throgmorton Street, and when the individual status of different members is scanned and discussed as it never is when business is brisk and markets are booming. So that, in times of depression, the tendency is quietly to get rid of the office hack, whose departure requires no advertisement on the Committee's notice-board, and on whose behalf no fees have been paid to the Committee for General Purposes.

Briefly, then, our advice to parents is this—on no account to place a lad of theirs in the office of a

member of the Stock Exchange, unless they possess sufficient influence to enable them to stipulate that he is admitted at an early date to the privileges of a "House" clerk; for otherwise the youth's career may never open out into anything wider than that of the life of the merest mechanical drudge, and he will be dependent upon the caprices of the most capricious business which exists for the continuity of his employment. In this connection, it may perhaps be serviceable to parents who have no intimate acquaintances among members of the Stock Exchange, to remind them that there are many influential avenues through which a member may be approached with a view to obtaining a footing for a lad inside the "House." Considerable Stock Exchange patronage at all times lies in the hands of family solicitors, bankers, and directors of public companies, and, supported by a friend at court of this description, a youth should have little difficulty in getting his foot on the Stock Exchange ladder.

The importance of a clerk's being admitted to the Stock Exchange as a "House" clerk as early as possible in his career cannot be too strongly emphasised, because a clerk who has served for four years as a "House" clerk is admitted a member upon very much more advantageous terms than a man who has not gone through this preliminary training. The reason for this rule is, that the Stock Exchange Committee are naturally anxious to discourage candidates from seeking election who are not thoroughly conversant with the customs and the perils which surround a member of the "House." No matter what experience

a clerk may have had in the office of a Stock Exchange firm, it counts for nothing in the eyes of the Committee, unless the candidate for membership has been admitted as a "House" clerk for a term of four years. Then the terms of membership are much less onerous than they are in the case of a man who has not had this valuable experience. For, in the case of a candidate for membership who has not served four years as a "House" clerk, the Committee require him to find three sureties of £500 each, and each of these sureties must be members of the "House" of not less than four years' standing; whereas in the case of a "House" clerk who has served his four years of "House"-clerkship, only two such sureties are required, and they are only responsible for the sum of £300 apiece. It is rather a formidable task for a youngster to obtain members to stand surety for him. But a "House" clerk who is known to have a *clientèle* of his own, and who intends to devote himself to stockbroking in the future, has little difficulty in persuading two jobbers to stand surety for him; for the broker feeds the jobber by acting as the intermediary between the public and the market. So that, as a means of simplifying the surety question, stockbroking is greatly preferable to jobbing for a man who is without relatives or intimate friends amongst members of the Stock Exchange.

The other regulations as to a man's eligibility for a "House"-clerkship are the same as those for membership, except that a "House" clerk is allowed to enter the Stock Exchange, with the Committee's permission, at the age of seventeen, while a candidate

for membership must be twenty-one years of age before he is eligible for election. The only point upon which the Committee insists which in any way affects a boy entering a stockbroker's office on leaving school is, that he shall be a British subject. There are regulations as to the naturalisation of foreigners, and prohibitions regarding a member's wife carrying on a separate business on her own account. A previous bankruptcy is also a bar to Stock Exchange membership. But these questions do not apply to an English lad whose parents intend that he shall qualify himself for a Stock Exchange membership on leaving school.

The following quotations from Stock Exchange Rule 44 describe the terms upon which the Committee will admit a candidate to the privileges of entrance to the "House" and Settling Rooms:—

RULE 44. No Clerk shall be admitted to the House or the Settling Rooms without the permission of the Committee, nor unless he be seventeen years of age.

A Member applying for the admission of a Clerk must satisfy the Committee that he would be in all respects eligible as a Member except as regards age and qualification of service.

No Clerk shall be authorised to transact business until he is twenty-one years of age, and has been admitted to the House or the Settling Rooms for Two years, with a minimum service in the House of One year.

A perusal of the above rule will convince parents and guardians of the importance of a lad's obtaining admission to the "House" at as early a date as possible. The Stock Exchange Committee do not recognise that a clerk has begun to serve his apprenticeship, which finally qualifies him for

membership, until he obtains admission to the Settling Rooms. Without such admission, therefore, any number of years which a clerk may have spent in the office of a member of the Stock Exchange are, in the eyes of the Committee, of no value whatever. The second clause of Rule 44 as to a clerk's being eligible as a member except as regards age and qualification of service, refers to the following rules as to the admission of members :—

RULE 21. The Committee shall, on the first Monday in March, proceed to admit and re-elect such persons as they shall deem eligible to be Members of the Stock Exchange, for one year, commencing on the 25th of March then instant, or last preceding the admission of such Subscriber, at the amount fixed by the Trustees and Managers for such admission.

Note the words "for one year." This is done to enable the Committee to get rid of an undesirable member who may have just kept clear of an infraction of the rules, sufficient to permit of his expulsion. By this rule the Committee retain power to punish a member for a moral offence or one against the unwritten laws or rules, by notifying him that he has not been re-elected.

RULE 22. Every applicant for admission must have served as a Clerk in the House or the Settling Rooms for Two years (with a minimum service in the House of One year) previously to being balloted for, and must be recommended by Three Members of not less than Four years' standing, who have fulfilled all their engagements and are not indemnified. Each Recommender must engage to pay Five hundred pounds to the creditors of the applicant, in case the latter shall be declared a defaulter within Four years from the date of his admission.

If the applicant has served as a Clerk in the House or the

Settling Rooms for Four years (with a minimum service in the House of Three years) previously to his application, Two recommenders only shall be required, who must each enter into a similar engagement for Three hundred pounds ; but any Clerk, who previously to his employment in the Stock Exchange shall have been engaged as Principal in any business, shall only be eligible for admission as a Member with Three Sureties for Five hundred pounds each.

The Election of new Members must be carried by a majority of three-fourths in a Committee consisting of not less than Twelve Members.

No Member shall be Surety for more than Two new Members at the same time, unless he take up an unexpired Suretyship, when the limit shall be Three.

RULE 23. No Foreigner shall be admissible unless he shall have been naturalised for a period of Two years, and shall have been a resident in this country for Seven years.

RULE 29. No applicant is admissible if he be engaged as a principal or clerk in any business other than that of the Stock Exchange, or if his wife be engaged in business, or if he be a member of, or subscriber to, any other institution where dealings in stocks or shares are carried on ; and if, subsequently to his admission, he shall render himself subject to either of these objections, he shall thereby cease to be a Member.

RULE 30. No applicant for admission who has been a bankrupt, or against whom a Receiving Order in Bankruptcy has been made, or who has been proved to be insolvent, or who has compounded with his creditors, shall be eligible, unless he shall have paid 20s. in the £, and obtained a full discharge. No applicant having more than once been a bankrupt or insolvent, or compounded with his creditors, shall be eligible for admission.

In addition to members, their assistants or clerks receive a right of entry subject to certain limits. They are of various classes, namely, *Authorised*—having the entry to the “House” and the power to deal and

commit their principals' credit; *Unauthorised*—having the entry to the “House” for the purposes of interviewing principals to arrange the settlement of disputed accounts, checking the bargains, telegraphing prices to correspondents, etc. etc.; and *Unauthorised No. 2*—having the entry to the checking rooms only, for the purpose of checking bargains, passing tickets or names, and settling accounts—these latter have no right to enter the “House” proper.

A rule has recently been passed, that unauthorised clerks of both classes must wear a badge. Those entitled to enter the “House” (including the Settling Rooms) are distinguished by a red stud in the buttonhole of the coat—those having Settlement-room entry only by a blue stud, both having a white rim. This badge regulation caused considerable perturbation at first. It was felt to be a sort of indignity; but both employers and employed brought it on themselves by their own conduct, the former by neglecting to confine their clerks to business pursuits only, the latter by abusing the privilege they enjoyed, by utilising it in slack times to degrade the “House” to the purposes of a playground and betting centre. Being undistinguishable from members, they could not be challenged. Now the member is held responsible for his unauthorised clerk exhibiting his badge on every occasion he enters the “House,” and if it is lost he must pay 10s. 6d. for another badge.

Now it will be observed that there is nothing in any of these rules which presents any obstacle to the eligibility of a boy of English parentage who enters a Stock Exchange office as soon as he leaves school.

Rule 44A does, however, place restrictions upon the number of "House" and Settling Room clerks which a member of the Stock Exchange may employ. The terms of this Rule are as follows:—

The maximum number of Clerks permissible but not necessarily allowed is for an

	<i>Authorised.</i>	<i>Unauthorised.</i>	<i>Settling Room.</i>
Individual Member	1	2	2
For a Firm	2	3	4

In the event of a Member or Firm not employing the maximum number of Authorised Clerks, they may be allowed an additional Unauthorised Clerk, so as not to exceed in any case three Unauthorised Clerks for an individual or five for a firm.

There is therefore a limit to the number of clerks which a member may introduce into the Stock Exchange, and it may consequently be necessary for the aspirant to membership of the Stock Exchange, to wait some little time before a vacancy occurs which will enable him to appear before the Committee to obtain their permission to enter the "House" or the Settling Rooms as a clerk.

In practice it is always found to be easier to obtain a situation for a boy in the office of a jobber than it is in that of a broker. But except when it is a matter of urgency that a boy should be elected a member of the "House" at the earliest possible moment, we should always recommend a parent rather to place a lad in the office of a broker, with the promise of his being admitted to the Stock Exchange when a vacancy occurs, than to turn a child fresh from school into the comparative misrule of a jobber's office. Not that a boy is likely to come to any particular harm

in a jobber's office, but the work in the office of a broker is more machine-like in its regularity during the account, whereas in the office of a jobber there is a scampering rush just before, during, and immediately after the settlement, which is followed by a period of enforced idleness between account days. Moreover, a broker's office is generally presided over by a grave and reverend senior, who keeps the youngsters in order, and impresses them with the serious aspect of City life—a view of the case which is but seldom considered in the office of a jobber. Further, in a broker's office daily letters have to be written to clients, and contracts have to be made out and forwarded to clients at the end of each day, whereas letters and contracts are alike unknown in a jobber's office. Besides this, in a broker's office the novice has an opportunity of learning the routine both of business as it is conducted between members of the Stock Exchange and of business as it is conducted by a member of the Stock Exchange with and on behalf of the outside public. Altogether, even in the case of a youth who is ultimately destined to become a jobber, we should strongly advise that he should acquire his initiation into the mysteries of the Stock Exchange in the office of a broker.

No doubt, in the office of a firm of jobbers who do a "shunting" business between London and the Stock Exchanges in the provinces, or who transact arbitrage business between London and the Continental Bourses or New York, the responsibilities of the office work are generally entrusted to a head clerk of ripe experience, who sees that the daily

routine proceeds with a decorum which is unsurpassed in the office of the stateliest of brokers. But at the same time the great majority of Stock Exchange firms which are engaged either in arbitrage or "shunting," employ so many clerks, and subdivide the office work into so many departments, that a youth cannot hope to obtain that all-round experience of the intricacies of office routine which he would get in the office of a smaller firm. Furthermore, the amount of capital required to remit blocks of stock between Stock Exchanges makes arbitrage work only possible to firms possessed of large resources, so that much of the detail work which a junior clerk sees in such an office is little likely to be of use to him in his subsequent career. For these reasons, then, we should always advise that a youth should begin his Stock Exchange career in the office of a broker, and, other things being equal, we should give the preference, as a training school, to an office where half a dozen clerks were employed, over an office employing twice the number of men. The risk of a clerk falling into a groove of mechanical detail is infinitesimal in a Stock Exchange office of small dimensions.

In order rightly to understand the difficulties of Stock Exchange life, it is as well to explain that the increased competition of recent years has done much to reduce the earnings of both brokers and jobbers. With the reduction in the average Stock Exchange income there has been a consequent reduction in the accumulated wealth of individual members of the "House." The result of this competition is

that the member, owing to the reduction in the scale of commissions earned by him if he be a broker, or owing to the smallness of the market "turns" to be picked up by him if he be a jobber, is compelled to do a business of much greater dimensions to earn the same income as he did a few years ago. So that it is now necessary to undertake a larger volume of business, with its increased risks, to earn no larger an income than a member earned twenty years ago with market commitments amounting in the aggregate to no more than one-third of the stock in which he now has to deal to acquire the same net result. The consequence is that members in these days accumulate capital more slowly than they used to do. Now, the individual capital accumulations of members of the Stock Exchange give the same steadiness to markets in times of panic and semi-panic as her keel gives to a ship when caught in a squall. If in addition to the nervousness caused by violent fluctuations in values, markets are to be upset by anxiety as to the solvency of members involved therein, the Stock Exchange ship has a tendency to roll most uncomfortably in anything approaching a gale. And, owing to the great reductions in both commissions and market "turns," members are tempted every year to set more and more financial canvas, although their keels, in the shape of accumulated wealth, are being constantly pared down. The inevitable result of this unsound system of trading is to be seen in the alarming fashion in which one Stock Exchange failure in these days promptly involves two or three

other firms whose capital resources are insufficient to meet the strain of an unexpected bad debt. Briefly, the increase of competition is undermining Stock Exchange stability. This increased competition arises from two causes—first, from the unwarranted increase in the number of members of the Stock Exchange; and, secondly, from the inroads made into Stock Exchange business of recent years by the so-called brokers and dealers who are not members of the “House.”

In discussing the question of the number of new members annually admitted to the Stock Exchange, it is necessary to bear in mind that the Stock Exchange premises are owned by a private company, the shareholders in which must all be members of the Stock Exchange. Although all the shareholders must be members of the Stock Exchange, by no means is every member of the Stock Exchange a shareholder: in fact, the shares of the Stock Exchange are in the hands of a minority—a very powerful minority truly, but still such a minority that it may roughly be stated that out of every eight members of the “House” only one is a shareholder, and consequently a part proprietor of the premises. The landlords of the Stock Exchange are therefore a comparatively small clique of members, and, as we shall show presently, the interests of the landlords are frequently in direct opposition to the interests of the general body of members. Not only is this the case, but the power of the proprietors is enormously increased by the fact that it is quite the exception when a member of the Committee for General Purposes does not

hold Stock Exchange shares of his own, and is thereby, of course, a part proprietor of the premises. As a holder of Stock Exchange shares, a proprietor expects to get, and does get, a very handsome dividend upon his investment; not only so, but, by so managing the "House" that the proprietor's income is a steadily increasing one, the shareholder in the Stock Exchange sees a continued appreciation in the price of his shares, which he can either turn into cash by selling them, or which goes to swell the value of his estate at his death. The Stock Exchange Committee-man being in practice invariably a shareholder, and, although a Committee-man, being but human, he not unnaturally develops a somewhat unhealthy appetite for Stock Exchange dividends—a craving which has a most unfortunate effect upon the general body of the members of the "House."

As for getting out of the Stock Exchange, that is not by any means so difficult as getting in. A member can be expelled for malpractices, or he may be suspended by the Committee for a period as a punishment for a minor offence.

Then members may be "hammered," as the official announcement of a member's insolvency is termed in the slang of the Stock Exchange. Owing to bad debts, inability to meet his differences, etc., or even to carry-over his account, a member may find that he cannot meet all his cheques on Pay Day. The consequence is that he is "declared." The Secretary, being informed either by the defaulter or by sundry of his creditors that he cannot pay, instructs two of the waiters to "hammer" the

defaulter—two, because of the size and division of the “House.” These waiters stand in their boxes and strike three blows with a wooden mallet. At the first blow general attention is arrested; at the second, almost complete silence prevails; at the third blow, dead silence reigns. The two waiters stand erect in their pulpits, take off their hats, and solemnly announce—“Gentlemen, Z. A. and Y. B., trading as A. & Company, beg to inform the ‘House’ they cannot comply with their bargains.” This is the formula in the case when a member or a firm notifies the Committee of his own or their own insolvency. But if the insolvency of a member or a firm is reported to the Committee by his or their creditors, the failure is announced by the waiter stating that “A. A. has not complied with his bargains.”

This is a duty much disliked by the waiters. On one occasion several flatly refused the duty for fear of breaking down, and at the “declarations” in connection with the Whitaker Wright and London and Globe Companies on the last day of 1901, one of the oldest and most respected waiters broke down altogether at having to “declare” so many members whom he had for years personally served.

CHAPTER XII

THE STOCK EXCHANGE AS A CAREER (*continued*)

A Youth's Prospects as a Broker—The "Half-Commission Man"
—Causes of Failure—Special Importance of Attention to
his Clients' Business—A Jobber's Advantages and Dis-
advantages—Rules relating to Admission and Election to the
Stock Exchange.

WHEN considering the question of a career for a boy leaving school, parents and guardians are apt to be misled by the idea that, without the possession of substantial capital, it is useless for a lad to attempt to make his way on the Stock Exchange. Whereas, granted that a youth has some influence to back him, there is no doubt that, even without capital, the Stock Exchange offers at least as promising a career as do the learned professions, and it is, without exception, the most likely of all mercantile pursuits to enable a penniless lad to make his way rapidly from the ranks of clerkdom to the position of a principal. It is, however, absolutely essential, as we have already pointed out, that a boy should have influence behind him. Now, such influence as would assist a man to make his way in the "House" does not lie in his family and friends being intimately

acquainted with a large circle of Stock Exchange men. The people who can exert themselves with advantage to a lad who is intended for the Stock Exchange, are not those who themselves are on the Stock Exchange, but rather those who habitually do business with members of the Stock Exchange—for instance, family solicitors, bankers, and the directors of most public companies, but more especially of Insurance Companies, which always are doing a lucrative Stock Exchange investment business. But almost all directors of companies have a fair amount of Stock Exchange patronage in their hands.

At the same time, it should be quite clearly understood that, without Stock Exchange influence to back him, there is no more hopeless outlook than that of the ordinary hack-clerk in the office of a member of the Stock Exchange. To begin with, from the very nature of the business and its bursts of wild prosperity, which at times are followed by two or three years of intense depression, the demand for Stock Exchange clerks is an exceedingly variable one. And, in addition to this drawback, the salaries of junior clerks in Stock Exchange offices are never large; for so great is the eagerness to obtain a footing in the Stock Exchange, that in many cases clerks are content to pay a premium for the privilege of entering an office, and in no case are junior clerks' salaries calculated on a more liberal basis than that of a bare living wage. Moreover, as a further disadvantage, the clerks with influence are constantly passing over the heads of those who have none, so

that the coveted position of a "House" clerk becomes almost unattainable by the ordinary clerk.

In practice, a junior clerk in a Stock Exchange office has scarcely such good worldly prospects as those of an unarticled clerk in the office of a solicitor. At times, of course, by a mixture of luck and merit, a junior clerk's ability may be revealed to his employer, but such cases are few; and they are few from the simple reason that, in these days, when the Stock Exchange Clearing-House embraces almost all active stocks in the list, the office work of a clerk is of such machine-like grooviness, that little more is demanded of him than tolerable punctuality and an ability to read and write and be capable of a little elementary arithmetic. Even the elementary arithmetic need only be of the most primitive order, for calculation books, giving the results of almost any known quantity of stock worked out at every variation of price, are to be found in all Stock Exchange offices. At one time, a junior who displayed any gift of letter-writing, and who could compose a tolerably coherent business letter, had occasional opportunities afforded him of showing that he possessed more than the average attainments of a stockbroker's clerk, but even this road to distinction is now closed. For, at the present day, a shorthand typewriting clerk in a broker's office dots down from the dictation of one of the partners the substance of all letters, the contents of which are in any way outside the ordinary routine of letters advising business done and enclosing contracts. In every way the tendency of the duties of a stockbroker's clerk

are to become more mechanical, and, as a natural consequence, his scale of pay tends to become lower. It is only when a clerk is admitted to the Stock Exchange and becomes what is known as a "House" clerk, that he is brought prominently under the notice of the partners of his firm, and has any opportunity of making his mark as a man of some capacity. Consequently, as has been seen, the Stock Exchange only offers anything worthy of the name of a career to the clerk who is possessed of sufficient influence to assure him of his admission to the Stock Exchange as a "House" clerk at the outset of his City life.

Having pointed out the hopeless sort of *cul de sac* in which a youth may find himself who drifts into a Stock Exchange office without any influence to further his progress, we will now consider the great advantages which the Stock Exchange offers to a lad who approaches it with the right sort of influence behind him. The half-commission system which prevails in all stockbrokers' offices is the bridge by which a youth who is possessed of influence, but who is without capital, can pass from a clerkship to a partnership with a facility which is unknown in any other mercantile calling than that of a stockbroker.

The system of half-commission is worked in this way—on a stockbroker's clerk introducing a client to his firm, he is allowed one-half of the nett commission on all the subsequent business which results from this introduction. Such nett commission is arrived at by deducting from the total commission paid by the client during each account, the sum expended on

telegraphing to him and on any other minor office expenses incurred on his behalf during the same period. It will be seen that this half-commission is enormously in favour of the clerk; for he, on his side, does no more than influence the client's business to his firm; while the firm, on their side, are paying office-rent, are providing the necessary staff of clerks, and are incurring all the responsibility for bargains done inside the "House" on the client's behalf. And yet, when the commission has been earned, one-half of it is credited to the clerk, who has done no more than introduce the client and his business. It is only when a bad debt results from such half-commission business that the clerk incurs any responsibility, and in that case both principal and clerk share between them the loss arising from the client's insolvency. Moreover, as this half-commission arrangement is quite usually made with brokers' clerks before they even obtain their "House" clerkships, it is obvious that a stockbroker's clerk who is in a position to influence business to his firm is beginning to earn money for himself in the very earliest days of his Stock Exchange novitiate. Compared with any other opening in life for a youngster without capital, these terms are most advantageous. For, without being possessed of anything more than a small connection of personal clients, a stockbroker's clerk, who is of economical habits, may find himself at the end of his first five years of City life in a position to pay his admission fees as a member of the "House," while he has gathered round himself the nucleus of a stock-broking business of his own which will be of material

advantage to him for the rest of his life. And it must be remembered that, while he has been achieving this, he has had the opportunity of acquiring a thoroughly practical insight into all the details of a stockbroker's business, and has been able to live in a modest fashion by his own exertions.

At the age of twenty-three or four, the clerk who began life with only a small business of his own to assist him, may find himself a full-blown member of the Stock Exchange, with a sound practical knowledge of his business, and with a connection of his own which, if properly attended to, should begin to show some small signs of expansion. Such a position, it is safe to say, compares most favourably with that which can be won by a penniless man in any other walk of life in these days of overcrowding and keen competition. Neither is it so difficult for a man to scrape together his first half-dozen clients as perhaps might be imagined. For there are few middle-class families which have not, either through solicitors, bankers, or company-directors, the power of diverting to a relation of their own, Stock Exchange business which has hitherto been transacted through comparative strangers. It is, in fact, quite usual for the same influence which was powerful enough to bespeak an ultimate "House" clerkship for a youngster at the opening of his career, to stipulate also that he shall receive a half-commission interest in any future business which his introducer may henceforward transact with the broker into whose office he may be received.

Although it may appear from the preceding lines as if a Stock Exchange clerkship, when assisted by a

little influence, were a short-cut to fortune, yet it would be idle to deny that a great number of men starting in life under these conditions ultimately achieve nothing but failure. And the cause of these failures is largely due to the fact that a half-commission clerk generally enjoys a position of greater freedom than falls to the lot of the ordinary clerk. The man who is the means of introducing business to a firm not unnaturally occupies a more independent position than the mere wage-earner, and it is this very independence which is the stumbling-block of so many youngsters who enter upon Stock Exchange life with everything apparently in their favour. The young man is tempted to leave the conduct of his half-commission business to his principals, and while he ought to be carefully building up his connection and judiciously strengthening the personal tie between his clients and himself, he is too often away from business on his own personal amusements. In this fashion the half-commission man loses all grip of the business which was originally his, and his clients, who in his absence have become accustomed to interviewing his principals rather than himself, gradually cease to regard him as being a factor in the matter at all. The result of this neglect naturally is that, if by and by the half-commission man either quarrels with the firm to which he is a clerk, or accepts a partnership with some other firm, he is chagrined to find that he no longer has any influence over the future destination of the business which he originally introduced to his late employers.

It should be the object, then, of a half-commission man to make every effort to strengthen the personal bond between himself and his clients. With this object in view he should arrive at the office early each morning, and from his clients' letters carefully take note of any instructions or inquiries, with a view to satisfying himself that his clients' business is done in accordance with their wishes, and that their inquiries are answered as fully as the case requires. So far as possible, he should always personally call upon his own clients, when their business requires it, and he should also personally conduct his firm's correspondence with them, quoting in his letters the closing prices of any stocks in which his firm may have received the client's instructions as to limits. As was pointed out in Chapter III. p. 48, clients frequently instruct brokers to retain a "limit" "until cancelled," without being aware that, according to custom, a fresh account cancels all previous limits. It is desirable, therefore, when a client leaves an "until cancelled" limit either to buy or to sell stock, to notify him at the commencement of each fresh account that his limit is still being retained.

Further, to avoid any chance of dispute with his own clients, a half-commission man should see that the commission charged upon contracts is according to the agreed-upon scale of commission, and in every other way he should carefully guard against any sort of friction arising over the details of the business of his own personal *clientèle*. Also, a beginner will do well to bear in mind that, however insignificant a

client's business may be, it should always be done with the same scrupulous care as that of a more important man, for business well done for a small client is occasionally productive of most valuable introductions to men whose business is on a much larger scale. With a final reminder that bad debts and disputes with clients are the two great causes of disasters to stockbrokers, we can take our leave of the budding broker.

With regard to the youth whose ambition it is to become a jobber or dealer, there is less to be said. For the jobber deals only with stockbrokers and not with the general public, so that the jobber's future *clientèle* lies entirely among members of the Stock Exchange. The success of a jobber depends largely upon his ability to understand the requirements of brokers, and to enter into their occasional difficulties with unreasonable clients. For this reason, we should always strongly advocate that a lad who is intended for a jobber should gain his first experience of Stock Exchange life in the office of a broker. And beyond this there is a much steadier daily routine in the office of a broker than there is in the office of a jobber. For, as a jobber deals only with members of the Stock Exchange, he neither receives nor writes business letters; also the experience to be gained in a jobber's office is much narrower than in that of a broker, for whereas a broker deals in every market in the "House" on his clients' behalf, the jobber only deals in one market, and often only in a single group of stocks in that market. There are some large firms of jobbers the different partners of which deal in

two, or even in three, separate markets, but such firms are not numerous, and even in their offices a beginner gains no such all-round experience as he would in the office of a broker.

In some respects, a jobber enjoys advantages which a broker does not: to begin with, a jobber deals in comparatively few stocks, and has little difficulty in keeping himself accurately posted up in the details concerning them, while the broker deals in all markets, and is expected to have at least a fair general knowledge of most existing stocks. Then the jobber, who deals only with his fellow-members, is never wearied by almost interminable interviews with clients, who have little knowledge of matters financial, and who sit for hours in hesitating indecision over the investment of a small sum of money, on which the commission perhaps amounts to but a few shillings. For the same reason that he has no dealings outside the Stock Exchange, the jobber does not spend an hour or two at his office each evening when the "House" is closed, as the broker does in attending to the details of his correspondence and the issuing of contracts. And on Account Days, instead of being kept out of his money by dilatory clients, as is the common lot of brokers, the jobber merely has to collect his differences from his fellow-members, who must all pay on the spot or hopelessly compromise their future market-credit; for this reason the jobber can work his business in a much smaller capital than a broker can. In all these ways a jobber's life is preferable to that of a broker. But then, again, a broker has the opportunity of building up his connection and capital

with half-commission business at the very commencement of his career, while the future jobber is spending the years which must ensue before he can hope to arrive at an authorised clerkship, on the slender pittance of a Stock Exchange clerk's salary. As a jobber's authorised clerk, that is to say, a clerk who is permitted by the Stock Exchange Committee to deal on his firm's behalf, a youngster is usually allowed to credit himself with some agreed-upon proportion of the profits which he makes for his firm, so that in some degree his position then becomes analogous to that of a half-commission clerk to a stockbroker.

Frequent reference has been made in this book to the Rules of the Stock Exchange, which are 181 in number. It is important that a lad who is intended for a Stock Exchange career should obtain an intimate knowledge of these enactments, and it is at all times easy to borrow a copy of the Rules from a member of the London Stock Exchange. At the same time, it will readily be understood that until a lad has had some small experience of the work of a stockbroker's office, he will only vainly puzzle himself in attempting to understand these highly technical regulations. After three or four months of practical experience of Stock Exchange routine, the embryo member should diligently apply himself to mastering completely the rules of his future profession. To many members of the "House," who have dealt in the Stock Exchange for years with only a most cursory knowledge of the Committee's regulations, this piece of advice may appear to be somewhat in the nature of a counsel of

perfection. But there comes a crisis in the lifetime of most members, when a more intimate knowledge of the neglected Rules would have saved them much trouble and at times considerable sums of money.

At the risk of some repetition, we add the following quotations from the Rules which give details as to admission and election to the Stock Exchange, and as to the conduct of clerks when admitted to the House and Settlement Rooms :—

RULES

ADMISSIONS, RE-ELECTIONS, AND RE-ADMISSIONS

RULE 20. Every Member desirous of being re-elected shall, on or before the 15th of February in each year, address to the Secretary a letter, of the form inserted in the Appendix.

Each Member of a Partnership is required to sign a separate letter.

RULE 22. Every applicant for admission must have served as a Clerk in the House or the Settling Rooms for Two years (with a minimum service in the House of One year) previously to being balloted for, and must be recommended by Three Members of not less than Four years' standing, who have fulfilled all their engagements and are not indemnified. Each Recommender must engage to pay Five hundred pounds to the creditors of the applicant, in case the latter shall be declared a defaulter within Four years from the date of his admission.

If the applicant has served as a Clerk in the House or the Settling Rooms for Four years (with a minimum service in the House of Three years) previously to his application, Two recommenders only shall be required, who must each enter into a similar engagement for Three hundred pounds ; but any Clerk, who previously to his employment in the Stock Exchange shall have been engaged as Principal in any business, shall only be eligible for admission as a Member with Three Sureties for Five hundred pounds each.

The election of new Members must be carried by a majority

of three-fourths in a Committee consisting of not less than Twelve Members.

No Member shall be Surety for more than Two new Members at the same time, unless he take up an unexpired Suretyship, when the limit shall be Three.

RULE 23. No Foreigner shall be admissible unless he shall have been naturalised for a period of Two years, and shall have been a resident in this country for Seven years.

RULE 24. A Notice of each application, with the names of the recommenders, stating that they are not, and do not expect to be, indemnified, shall be posted in the Stock Exchange, at least Eight days before the applicant can be balloted for.

RULE 25. Members are required to have such personal knowledge of applicants whom they recommend, and of their past and present circumstances, as shall satisfy the Committee as to their eligibility.

RULE 26. Any recommender of a New Member, who at the time of such Member's admission shall have avowed that he was not, and that he did not expect to be, indemnified, and who shall subsequently receive any indemnity, shall in the event of the New Member failing within the time of his liability, be compelled to pay to the creditors any sum so received, in addition to the amount for which he originally became surety.

RULE 27. An applicant may be recommended by a firm, but not by Two members of the same firm, nor by a Member who is an Authorised or Unauthorised Clerk, nor by a Member whose Authorised Clerk the applicant may be, nor by a Member whose Sureties are still liable.

RULE 28. If a Member enter into partnership with, or become Authorised Clerk to, any one of his Sureties, or if any one of his Sureties cease to be a Member during his liability, he shall find a new Surety for such portion of the time as shall remain unexpired ; and until such substitute is provided, the Committee will prohibit his entrance to the Stock Exchange.

RULE 29. No applicant is admissible if he be engaged as principal or clerk in any business other than that of the Stock

Exchange, or if his wife be engaged in business, or if he be a member of, or subscriber to, any other institution where dealings in stocks or shares are carried on; and if, subsequently to his admission, he shall render himself subject to either of those objections, he shall thereby cease to be a Member.

RULE 30.¹ No applicant for admission, who has been a bankrupt, or against whom a Receiving Order in Bankruptcy has been made, or who has been proved to be insolvent, or who has compounded with his creditors, shall be eligible, unless he shall have paid 20s. in the £, and obtained a full discharge.

No applicant, having more than once been a bankrupt or insolvent, or compounded with his creditors, shall be eligible for admission.

RULE 31. A Member, intending to object to the admission or re-admission of an applicant, or to the re-election of a Member, is required to communicate the grounds of his objection to the Committee by letter, previously to the ballot or re-election.

RULE 32. If any applicant for admission, re-admission, or re-election be rejected, he shall not be balloted for again before the 25th of March then next ensuing. Defaulters declared within Four years of their admission as Members, and defaulters who have been rejected upon Two Ballots, can only be re-admitted by a majority of three-fourths in a Committee specially summoned, and consisting of not less than Twelve Members.

RULE 33. Any former Member who, not having resigned, and not having been a defaulter, bankrupt, or insolvent, shall have discontinued his Subscription for One year, must be recommended for re-election by Two Members, but without security. If he shall have discontinued his subscription for Two years, he will be considered a new applicant, and must apply for admission in the usual way.

RULE 34. Any Member wishing to resign his Membership must forward to the Secretary a letter tendering such resignation, and a copy of this letter shall be posted in the Stock

¹ This Rule does not apply to the re-admission of Members of the Stock Exchange.

Exchange for at least four weeks before the matter is entertained by the Committee.

RULE 35. A notice of every defaulter applying for re-admission shall, at the discretion of the Committee, be posted (without recommenders) in the Stock Exchange, at least Twenty-one days, and the Committee shall then take the application into consideration, upon the report of the Sub-Committee, appointed according to Rule 171. If, however, the Committee think fit, a defaulter may be re-admitted without the above notice, upon a report of the Sub-Committee, and a certificate signed by such a number of the creditors as may be satisfactory to the Committee, that all liabilities have been *bond fide* discharged in full. In all such cases, after the defaulter has been re-admitted by ballot, it shall be decided by show of hands whether his name shall be posted in the Stock Exchange as having paid 20s. in the £; or whether it shall be placed in one of the two classes mentioned in Rule 172.

Any Member not a defaulter, who shall have ceased to be a Member under Rule 151, and who shall have paid 20s. in the £, may be allowed to apply for re-admission with two sureties of £300 each.

RULE 36. The re-admission of defaulters shall take precedence of all other business.

RULE 37. The Chairman of the Committee, in addition to any other questions that may appear to be necessary, shall to each of the recommenders of an applicant put the following :—

Has the applicant ever been a bankrupt, or has he ever compounded with his creditors? and if so, within what time, and what amount of dividend has been paid?

Would you take his cheque for Three thousand pounds in the ordinary way of business?

Do you consider he may be safely dealt with in securities for the account?

RULE 38. The Chairman shall require every new applicant to acknowledge his signature to the form of application, and shall ask such questions as may be deemed necessary.

RULE 44. Defaulters can be allowed as Clerks only by a majority of three-fourths in a Committee specially summoned, and consisting of not less than Twelve Members. Clerks so allowed are not thereby admissible as Members.

No Authorised Clerk shall transact business as a Dealer in any securities other than those in which his employer deals.

RULE 45. A Member desirous of obtaining the admission of a Clerk shall make application in writing to the Committee, and state whether such Clerk is to be authorised or not authorised to transact business, or is to be admitted to the Settling Rooms only.

A Member desirous of employing another Member as his Clerk, shall make application in writing to the Committee and state whether such Clerk is to be authorised or not to transact business.

All Unauthorised and Settling Room Clerks, not being Members, who may be admitted to the Stock Exchange, shall, when exercising this privilege, wear a distinctive Badge in the lapel of their coats, and the Member applying for their admission shall be responsible for the Badge being worn.

When application is made for the admission of a Clerk who has previously been engaged in business out of the Stock Exchange, the name and address of such person, together with the name of the Member applying for his admission, shall be posted in the Stock Exchange Eight days prior to the application being considered by the Committee.

The Committee require that a Member shall have obtained a satisfactory reference from the last Employer of any Clerk he may desire to introduce.

No Clerk shall enter the Stock Exchange until his Employer has received from the Secretary notice of his admission.

RULE 46. A Member applying for the admission of an Authorised Clerk must first obtain the consent of his Sureties in writing, if the term of their liability be not expired.

RULE 47. A Member who may part with a Clerk, or be desirous of withdrawing from an Authorised Clerk the permission to transact business on his account, shall give notice in writing to

the Secretary, who shall forthwith communicate the same to the Stock Exchange in the usual manner.

RULE 48. A list of Authorised Clerks (distinguishing those who are also Members) and the names of their Employers shall be posted in the Stock Exchange, and the authority shall be considered to continue until revoked by letter to the Committee.

RULE 49. A Member authorising a Clerk to transact business shall not be held answerable for money borrowed by the Clerk without security, unless he shall have given special authority for that purpose.

RULE 50. A Member employed as Clerk, whether authorised or unauthorised, shall not make any bargain in his own name ; nor after the termination of his Clerkship, if the same arises from the default of his Employer, until he has first obtained the permission of the Committee.

RULE 51. No Clerk shall be allowed to apply for an allotment in loans or shares without the sanction of his Employer, who shall be responsible for the payment of the deposit on the shares or stock so applied for.

RULE 52. Clerks of defaulters are excluded from the Stock Exchange. Clerks of deceased Members may, by permission of Two Members of the Committee, attend to adjust unsettled accounts.

REGULATIONS AS TO CLERKS' BADGES

1. No Unauthorised Clerk will be allowed to enter the House or the Settling or Checking Rooms without a Blue Badge worn in the lapel of the coat, and no Settling Room Clerk will be allowed to enter the Settling or Checking Rooms without a Red Badge worn in the same manner.

2. The only Badges authorised are those issued from the Secretary's Office, and Members are held responsible that the loss of any one of them is notified to the Secretary.

3. A fine of 10s., to be paid to the Trustees and Managers, will be imposed for the loss of the Badge. No temporary Badges will be issued.

4. A Member withdrawing a Clerk is to return the Badge to the Secretary's Office at the date when the withdrawal takes effect.

5. A Member authorising a Clerk or applying to promote a Settling Room Clerk to the House is to return the Clerk's Badge as soon as the change is passed by the Committee.

GLOSSARY

Accepting Stock.—The act of signing the transfer book by the buyer of Inscribed Stock.

Account (The).—There are two Accounts per month, varying in period from 11 days to 19 days, as arranged by the Committee. Each settlement covers four days—(1) The Mining Contango Day; (2) the General Contango Day; (3) the Ticket Day; and (4) the Settlement or Pay Day. Dealings usually take place for the ensuing account, excepting in Consols, India Stocks, Colonial and British Municipal Loans, where transactions for cash are frequent. These “cash” bargains are settled at once, so soon as the transfer formalities, which vest the stock in the new holder, are completed. On the “Contango” or “Making-up” days, arrangements are made by which the delivery of Stocks and Shares open between Stock Exchange firms is postponed from the immediately impending settlement until the settlement next ensuing. For this accommodation a rate of interest is charged to the buyer of the stock by the seller, or other firm which contangoes the stock, for the use of the money employed in holding stock over until the

following settlement. Rates of Contango on stocks are usually based upon a rate per cent. per annum; whilst, on shares, Contango Rates are frequently calculated at a cost of so much per share. This cost varies from a farthing per share up to several shillings, according to the value of the share contangoed.

The "Ticket" or "Name Day" is so called because on that day ultimate buyers pass tickets or names to their immediate sellers—who again pass them on to the persons from whom they in turn bought stock. These documents are treated as stock, and pass at the making-up price, thus closing the transaction and creating differences for collection. "Tickets" represent stock to bearer; "Names" represent registered stock, and give details of the names, address, etc., of the transferee.

On the "Account," "Settlement," or "Pay Day," securities and transfers are delivered by the actual holders of stock, and paid for by the actual purchasers, whilst, in addition to the passing of stock between principals, cash differences are paid and received by the middlemen in these transactions. The Consol account takes place once a month, during the first few days.

Ad Valorem Stamp.—The stamp duty charged by the Inland Revenue on all deeds conveying property, contracts, etc., and is regulated as to its amount by the consideration in the deed. See Stamps.

Allotment.—The apportionment made by the issuers of a new loan, or by the directors of a new company, to subscribers. A "letter of allotment" conveys the information as to the amount of stock or shares so

allotted, and as to the sum which is payable by the subscriber in exchange for his allotment letter. In the case of new issues, the capital required is usually payable in instalments, which consist of the "Application Money," which is a deposit made by the applicant as evidence of his good faith when making an application for an allotment of the new stock, and of subsequent calls which are made upon the applicant by the issuers for further instalments of the capital which he has undertaken to subscribe. The dates upon which these calls will be made and the amounts of which they will consist are laid down in the Prospectus of the new Loan or the new Company. For instance, a £1 share is frequently payable as to the first 2s. 6d. in "application money," as to a further 7s. 6d. in "allotment money," with two further calls of 5s. each, one payable three months after allotment, and the second payable six months after allotment. In such a case the applicant remits a cheque for 2s. 6d. per share with his application form, and pays 7s. 6d. on receipt of his allotment notice, and finally exchanges his receipts for these moneys, together with the receipts for the "calls" which he subsequently pays, for a share certificate for fully-paid shares.

Allottee.—The person to whom an allotment has been made.

Amortisation.—The withdrawal of bonds for the purposes of repayment out of a sum specially appropriated to the purpose. Usually the interest on such withdrawn bonds is added to the "sinking fund" and increases the next amount amortised. Sometimes such repayment takes place by drawings at par or

perhaps a premium, sometimes by purchase in the open market, and sometimes by drawing if the market price stands over par, or purchase if under par. The amortisation takes place most commonly annually or semi-annually.

Application Form.—The form on which application is made for a subscription in a public loan or company. Attached to it is a receipt, which the Banker signs and returns to the Subscriber as evidence. This is later exchanged with other receipts for Bonds or Share certificates.

Application Money.—See Allotment.

Arbitrage.—Dealings between two Stock Exchange centres between which the value of money is determined by a rate of exchange. The Rate of Exchange becomes in such dealings the arbiter between the prices ruling at the respective centres. For instance, should the price of Egyptian Unified Stock, which is ruling in London in pounds sterling and fractions thereof, be below the price at which the same stock is changing hands in Paris, where the price is expressed in francs and decimals thereof, the London arbitrage dealer or arbitrageur will in such case buy Egyptian Unified in the London Market, and promptly advise his Paris correspondent, by cable or telephone, of the amount of the stock which he has bought and of the price which he has paid for it. The stock will then be sold on the Paris Bourse by the arbitrage dealer at that centre, and he will divide the profit so made with his *confrère* in London. So described, arbitrage business sounds simple and profitable enough, but it is a

method of dealing which abounds in pitfalls for any but the most quick-witted of operators. For instance, during the protracted Russo-Japanese negotiations of 1903-4, Paris was for many weeks far more sanguine of a peaceful issue to the Far-Eastern question than was London: consequently prices in Paris were habitually higher than the level of London quotations. Suddenly, however, without there being any material alteration in the political situation, Paris made a plunge into the depths of pessimism, and the position was reversed, the quotations at that centre being below those ruling in London. These inexplicable waves of sentiment, whether political or financial, import an element of uncertainty into arbitrage dealings which occasionally renders them exceedingly speculative. Beyond this, the expenses of a continual stream of messages, without which arbitrage dealings are impossible, together with the risk of a rival arbitrage house obtaining a few minutes' priority of information owing to superior smartness or the faulty working of the cable, added to the expenses of remitting at times large blocks of valuable securities from one centre to the other, puts arbitrage dealing beyond the capacity of any but firms of considerable capital resources.

"A" or Deferred Stock.—That portion of the Ordinary Stock of a company upon which no interest is paid until a fixed amount of interest has been paid upon the "B."

Attorney.—The person or persons appointed by deed, commonly called a "Power," to perform for the holder of securities such acts as the signature of transfers,

the purchase or sale of stock, the collection of dividends, etc. The "nature" of the powers with which an attorney is vested, are detailed upon a document, which is called the Power of Attorney.

Authorised Clerks.—Clerks authorised by the Committee of the Stock Exchange to transact business on behalf of their principals.

Averaging.—This is a term applied to the transaction by which an operator, whether he be a "bull" or "bear," buys or sells further stock to reduce the average loss upon an original bargain, when the price of the stock has moved in the contrary direction to that anticipated. For instance, a "bull" 5000 Goschens at 90 might buy 5000 more of the same stock, if it fell to 88. Then the average price of his total "bull" commitment of 10,000 Goschens would be 89.

"Back" or Backwardation, and Backwardation Rates.—The consideration paid on Carry-over Day for the loan of Stocks or Shares to cover a "bear" position for the duration of the ensuing account. A backwardation is the penalty which a strong "bull" clique is enabled to impose upon their "bear" opponents when speculative sales in anticipation of a coming fall have been made in excess of the amount of the floating "bull" account open in the market.

"Banging a Market."—Offering securities openly at decreasing prices with a view to affecting the price adversely.

Bargain.—A transaction between members of the Stock Exchange is usually called a "bargain."

"Bear."—An operator who speculatively sells securities which he does not possess, in the expectation of ultimately being able to repurchase at a profit on a fall in price of the stock so sold.

"Bear" Account.—Is the amount of stock which is open in a market against speculative sales.

Bond.—A document conveying a title to a portion of a public loan. Bonds bear consecutive numbers for the purpose of record and identification. They carry coupons attached, due at stated dates. When these coupons fall due the holder of the bond cuts them off and presents to the agents of the loan for payment.

Most bonds are issued to bearer; many, however, may be registered in the name of the holder, leaving the coupons to bearer.

Currency Bonds are those issued in the currency of the issuing country and payable both as to interest and principal in the same.

Deferred Bonds.—See "A" or Deferred Stock.

Bonus.—An extra profit distributed by public companies in excess of their usual dividend.

Boom.—A period of abnormal activity in one particular market or in markets generally.

Broker.—A member of the Stock Exchange whose business it is to act as intermediary between such of the public as are his clients and the members of the Stock Exchange who carry on business as jobbers. The broker is, however, under no obligation to transact the business of his clients inside the "House" should he be able to deal to greater advantage outside the "House."

Brokerage.—Another name for the commission on transactions which a broker charges to his clients on business done on their behalf.

"B" Stock or Preferred Stock.—That portion of the ordinary stock of a company which ranks first for a fixed dividend before the "A" stock benefits. See "A" Stock.

Bucket-Shop.—The office where an individual or a firm not members of the Stock Exchange carry on a pseudo-Stock Exchange business. The law does not recognise the validity of transactions done at a bucket-shop.

"Bull."—An operator who buys securities in the hope of reselling them at an enhanced price; one who takes an optimistic view of the market.

"Bull" Account.—Is the amount of stock which is open in a market against speculative purchases.

Buyers Over.—A phrase generally used to denote the fraction, $\frac{1}{32}$. For instance, when Consols are quoted at $90\frac{1}{8}-\frac{3}{16}$, "buyers over" would mean buyers at $\frac{1}{32}$ over $\frac{1}{8}$, namely, $90\frac{5}{32}$.

Buying-in.—When a seller has not delivered, within the period appointed by the Rules of the Stock Exchange, the shares or stock he has sold, the purchaser, through his broker, gives an order to the official broker instructing him to buy-in the stock. After public notice of such intended buying-in has been exhibited on the notice board of the Stock Exchange, the official broker stands up in a conspicuous position in the market, and bids openly for the undelivered stock. Should the stock be thus bought in at a higher price than the bargain originally was

done at, the seller loses the difference between the two prices, and is debited, in addition, with the official broker's commission-charge for effecting the buying-in purchase.

Call.—A demand by the directors of a public company, or by the agents to a loan for a further instalment of capital, from the applicants who undertook to subscribe the capital of a new Joint Stock Company or of a new Government Loan. The term "call" is explained more fully under Allotment, which see.

Call Money.—Money advanced against security as a loan, the loan being terminable at the option of either the borrower or the lender, on notice being given before 12 o'clock noon on the day the repayment is to be made.

Carrying Over.—Is the operation by which the delivery of stock due to be delivered at one settlement is postponed until the settlement following.

Certified Transfers.—See Transfers.

Certification.—See Transfers.

Checking or Checking Bargains.—The "House" clerks to Stock Exchange members meet every morning and compare the bargains done by their respective principals the day before. Should there be any difference in amount or price, the principals settle the matter either by friendly arbitration, or occasionally by reference to the Committee.

Clearing-House.—An institution established for adjusting the transactions of each Stock Exchange settlement, so that the amount of actual stock passing

from hand to hand on Pay Day may be reduced to the smallest possible minimum.

Commission.—See Brokerage.

Committee.—Commonly called the Committee for General Purposes. The governing body of the “House,” elected annually on 25th March by ballot. It consists of thirty members. The Committee’s duties are, to alter or amend the Stock Exchange Rules as may be necessary from time to time; to appoint special settlements in new issues. To elect new members, to re-elect old members, to decide upon all disputes between members, and also to settle such disputes between members and the outside public as may be referred to them. And to settle all questions in reference to official quotations, making-up prices, etc. etc.

Consideration.—The purchase-money payable by the buyer of registered stock or shares. The stamp duty on a transfer deed is an ad valorem tax regulated by the amount of the consideration money.

Consolidation.—Combining several issues of stocks or shares, and converting them into one uniform security.

Consols.—Stock which forms part of the English National Debt: an abbreviation of the word “Consolidated.”

Consol Account.—See Account.

Contango.—See Account.

Contango Day.—See Account.

Contango Rates.—See Account.

Continuation.—A synonym of “Carry-over.”

Contract or Contract Note.—A stamped document

sent by a broker to his client, setting forth the details of purchases or sales of stock or shares made on the latter's behalf. Where the consideration is £5 and under £100, the contract must bear a 1d. stamp; £100 or over, 1s. for each transaction. Carry-over notes must bear double stamp, one for the purchase and one for the sale. A specimen of a "bought" contract and of a "sold" contract is appended herewith.

BOUGHT CONTRACT

DRAPERS' GARDENS,
& STOCK EXCHANGE.

LONDON, _____ 190__

Bought by order

and for account of _____

(Subject to the rules and
regulations of the Lon-
don Stock Exchange.)

for payment _____

Drafts on Country Bankers
must arrive two days earlier.

@			
Stamp and fee		"	"
Commission and Duty		"	"
		"	"
£		"	"

Broker's Name and Signature.

THE STOCK EXCHANGE

SOLD CONTRACT

DRAPERS' GARDENS,
& STOCK EXCHANGE.

LONDON, _____ 190__

Sold by order

and for account of _____

(Subject to the rules and
regulations of the Lon-
don Stock Exchange.)

for payment _____

	@	”	”
Commission and Duty		”	”
		<hr/>	
	£	”	”
		<hr/> <hr/>	

To

Broker's Name and Signature.

Corner.—When the “bears” or speculative sellers of a stock are refused carry-over facilities by the “bulls,” the stock is said to be cornered. A corner is engineered by the “bull” party forming a pool and sweeping the market bare of all floating stock by paying for it and locking it up. When a stock is so cornered, the “bears” are compelled to replace their speculative sales at any fancy price which the “bull” pool may dictate to them.

Coupon.—A small voucher representing interest attached to a bond or a share payable to “bearer.” Coupons on bonds are generally payable either quarterly or half-yearly, and the duties of these payments

are stated on the coupons. In the case of coupons on shares an announcement is made through the Press that a dividend will be paid against the presentation of Coupon No. —

Cover.—Security deposited with a broker to protect him against the contingency of adverse differences during the time in which he has a speculative account open on behalf of a client.

Cum coupon or cum dividend.—When the buyer of stock is entitled to receive from the seller a dividend already earned and declared, the stock is said to change hands cum dividend or cum coupon.

Cum drawing.—Similarly, when the buyer is entitled to participate in an impending drawing of bonds, the bonds are sold to him “cum drawing.” In the case of a bond quoted at a discount but redeemable at par, the question as to whether the buyer is or is not entitled to participate in a “drawing” is a material one.

Cum New.—Again, when the buyer is entitled to demand from the seller any new stock or shares which may be issued to the seller in right of the stock which he is selling, the purchase is said to be made “cum new.”

Cumulative Preference Shares or Stock are entitled to claim the payment of all overdue interest before the holders of any other securities which rank behind the cumulative preference are paid anything in the shape of a dividend.

Dealer, also called a Jobber. His business consists of acting as middleman between buyers and

sellers in one particular group of securities. The jobber's method of dealing is briefly explained under "Making a price," which see.

Debenture or Debenture Stock.—A mortgage deed issued by a company and secured on real property. The main distinction between different types of debentures is that some are issued as redeemable and others as irredeemable. The conditions and the price at which such redemption, if any, takes place are set forth in the mortgage deed by which the debenture is secured. Like all other registered stocks, debenture stocks are negotiable in any odd amount of stock.

Debenture Bonds, on the other hand, are only negotiable in such amounts as the bonds are issued for. Debenture bonds are generally to bearer, with coupons for interest attached. Some few debenture bonds, however, may be converted into registered stock at the option of the holder.

Defaulter.—A member of the Stock Exchange who is unable to meet his engagements is termed a defaulter. The defaulter may inform the Stock Exchange Committee of his own insolvency, or his creditors may be left to acquaint the Committee with the fact. In either case, the failure of the member, or of a firm comprising two or more members, is publicly announced by the ceremony of "hammering" the defaulter or defaulters. This is described under "Hammer," which see.

Differences.—The cash balance remaining open between two Stock Exchange firms, when all the stock in which they have dealt together during an

account has been settled either by the Clearing-House or by tickets, is termed a "difference."

Discount.—When the current market price is lower than the par price, a stock or a share is said to be quoted at a discount. For instance, a £10 fully-paid share standing at £9 in the market would be at one discount.

Dividend.—Is the distribution of profits made by the directors of public companies to their shareholders. As a rule, dividend-paying companies make two half-yearly dividend-distributions.

Drawn Bonds.—Bonds advertised as drawn for redemption are termed "drawn" bonds.

Ex All means that securities so dealt in are devoid of all rights, privileges, and dividends, etc., to date.

Ex Coupon, Ex Dividend, Ex Drawing, Ex New.—These are the antitheses of cum coupon, cum dividend, cum drawing, cum new, which see.

Face Value.—The value which a security bears imprinted upon its face.

Floaters.—Bearer securities of a good class accepted readily as security against loans by banks, etc.

Founders' Shares are a type of security which is rapidly dying out. They are usually allotted amongst the promoting clique which has promoted a public company. As a rule, Founders' Shares are entitled to receive the whole or a large portion of the residue of a company's net earnings after the ordinary stock has received a certain stipulated dividend.

Fourteen Hundred.—Should a stranger evade the vigilance of the waiters who stand at each door of the Stock Exchange, and obtain admission to the "House," the members burst into a chorus of "fourteen hundred." Tradition says that one year the members numbered 1399, and that consequently the appearance of any stranger was hailed with a shout of "fourteen hundred."

Fully-paid Shares are those on which the full face value has been called up, and paid.

Funds (The).—Another name for the National Debt. In this country they are—Consols, Rupee Paper, India Loans, Local Loans, and War Loans.

Gilt-Edged Securities.—Those securities whose guarantee is beyond question.

Goschens.— $2\frac{3}{4}$ per cent. Consols, now $2\frac{1}{2}$ per cent.

Hammer.—When a member cannot or does not meet his engagements, the fact is announced by a waiter rapping three times on his box with a mallet for the purpose of securing silence, during which he announces either that "Dash Blank begs to inform the 'House' that he cannot comply with his bargains," which is the formula for announcing the failure of a member who declares himself to be insolvent; or else the announcement is made in the following form, when a member's failure is brought to the notice of the Committee by his unsatisfied creditors:—"Gentlemen, Dash Blank has not complied with his bargains." In the case of the insolvency of a firm,

the same phraseology is used, except that each individual member of the firm is described as follows:—"Gentlemen, Hyphen Asterisk and Dash Blank, trading as Asterisk & Company, have not complied with their bargains."

Immediately a failure is announced, the Stock Exchange Official Assignee takes charge of the defaulters' books, and with all possible promptitude makes a dividend-distribution amongst the defaulters' creditors, so as to relieve the financial strain to which they may have been subjected by being kept out of their money by the insolvency of a fellow-member.

Holidays (Official).—

1st January (2nd, if 1st is Sunday).

Good Friday.

Easter Monday.

1st May (2nd, if 1st is Sunday).

Whit Monday.

First Monday in August.

1st November (2nd, if 1st is Sunday).

Christmas Day.

26th December (27th, if 26th is Sunday).

Hours.—The "House" is open at 9.30 a.m., and closes at 4 p.m., Saturdays 2 p.m. The official hours are 11 a.m. to 3 p.m., and till 1 p.m. on Saturdays.

Identification.—Before transferring stock at the Bank of England, it is necessary that the seller be identified by a recognised broker or his clerk. This applies particularly to Inscribed Stock. See over.

Inscribed Stock.—Stock for which the sole title is the inscription in the Bank of England's books.

Interest Warrant.—A form of cheque used for the purpose of making interest payments to the holders of registered securities.

Interim Dividend is the description of any dividend-distributions which may be made by the directors of a company before the trading year is complete. Most companies pay an interim dividend at the ending of the first half of their trading year, and then wind up the twelve months' trading by paying what they term their final dividend.

Investment Stocks comprise those stocks which are so firmly held by investors that there is usually no supply of floating stock in the market. Such stocks are only obtainable on the distribution of a trust-fund or on the realisation of a deceased estate.

Investor is one who buys stock and pays for it.

Jobber.—See Dealer.

Jobber's Turn.—See Making a Price.

Joint Account.—Some Stock Exchange firms declare a joint responsibility with other Stock Exchange firms as to all transactions in certain stocks and shares; this is called a Joint Account. The Joint Account occasionally applies only to an individual bargain, which is then termed a "joint bargain."

Lame Duck.—An obsolete Stock Exchange term meaning a defaulting member.

Lending Stock.—See Account.

Letter of Allotment.—See Allotment.

Letter of Regret.—A notification to a would-be subscriber that the directors or agents regret they cannot allot him any portion of a new issue of stock, and that consequently they return to him his application money.

Letter of Renunciation.—A letter by which a shareholder, who is entitled to an allotment of new stock in right of his holding of old stock, renounces his interest in the new issue for which he does not intend to subscribe.

Limit.—An order given to a broker by a client, or given by a broker to a jobber, to buy or sell stock at a given price should market fluctuations render such purchase or sale practicable.

Limited Market is a market where business is so restricted that a free market has ceased to exist, and transactions partake rather of the nature of tedious negotiation.

Making a Price.—A broker with an order to deal in, say, £2000 nominal of the 5 per cent. Japanese Gold Loan, asks a jobber in the Foreign Market, where Japanese are dealt in, to make him a price in that stock. The jobber will probably make some such price as $91\frac{1}{4}$ — $\frac{3}{4}$, meaning that he is open to buy stock at the former price, or to sell it at the latter. The broker then transacts his business by saying, "I buy two thousand of you," or "I sell you two thousand," as the case may be. The broker and the jobber having booked the transaction in their jobbing books, the bargain is complete, and it is "checked" early on the following morning by the respective

clerks to the broker and the jobber, who assemble in the "Checking Room" for that purpose. If the broker had sold stock in the instance cited, the bargain would have been done at the price of £91 $\frac{1}{4}$; if he had bought stock, he would have purchased it at 91 $\frac{3}{4}$. The $\frac{1}{2}$ per cent. margin between the buying and selling price is called the market turn. This margin usually enables a jobber to secure an immediate profit by undoing his bargain at once with another dealer.

Making-up Day.—See Account.

Making-up Price.—A price fixed by the officials of the "House" at about noon on Contango and Ticket days for the purpose of dealing with "carrying-over," tickets, names, and Clearing-House entries. It is between these officially fixed prices and the prices at which the original bargains actually took place that cash differences arise.

Market.—The "House" is divided into many markets, of which the principal are, the Consol Market, the Home Railway Market, the American Market, the Foreign Market, the Miscellaneous Market, and the Mining Market. The Home Railway Market and the Mining Market are both subdivided into several separate sections, and indeed in almost every market the stocks which are there dealt in are subdivided into groups, which are made dealing-specialities by different knots of dealers who habitually stand close to one another at various corners of the different markets. The science of stockbroking largely consists of only transacting business with the jobbers who make a speciality of the stock in which the broker has received an order.

To know the fountain-head and to deal with it direct is the whole art of stockbroking.

Marking.—Any member who has “done a bargain” is entitled to “mark” it on the Official List. The marking of bargains is used by brokers for their protection, and it is a most efficacious method by which they can avoid irritating disputes with their clients. A client noting that the price on his contract does not agree with the marks of business done as recorded on the Official List, always cherishes a feeling of grievance against his broker, even if the client’s resentment does not go the length of his laying the question of the disputed price before the Stock Exchange Committee.

Middle Price or “The Middle.”—As a matter of stockbroking finesse, it is always open to a broker when a jobber has made him a price in a stock, to challenge him at the middle price; for instance, had a jobber made the price of $147\frac{3}{8}$ — $\frac{5}{8}$ in 200 Milwaukee shares, it would be perfectly legitimate for the broker to inquire, “Anything at a half?” which is challenging at $147\frac{1}{2}$ or “the middle” between $147\frac{3}{8}$ — $\frac{5}{8}$. The occasions on which a broker challenges are usually when he has an order to buy stock in an obviously weak market, or when he has been instructed to sell stock in a rampantly buoyant market, or when he has been given an order in which he is strictly limited by his client as to price. When challenged at “the middle,” the jobber is at liberty to say that he has nothing to propose at that price; or, on the other hand, it may suit him either to bid the broker for the stock, or to offer it to him at “the middle.” In theory it would appear as if it were

always the duty of the wide-awake broker to challenge at "the middle"; in practice, however, it will be found that such is not the case. For the broker by challenging "at the middle" exposes his client's business, and by the very act of the broker's challenging the jobber's previously made price of $147\frac{3}{8}$ — $\frac{5}{8}$ is cancelled, and he is under no obligation to offer to deal on these terms again. Further, supposing the jobber either bid the broker $147\frac{1}{2}$ for Milwaukee, or offered him Milwaukee at $147\frac{1}{2}$, in the case cited above, and the broker did not deal with him, the jobber would at once know that both he and the broker were what is termed "the same way;" that is to say, that they were both alike either buyers or sellers of Milwaukee at $147\frac{1}{2}$. On making this discovery, the jobber would be at liberty energetically and openly to bid $147\frac{1}{2}$ in the market for Milwaukee or even more, if he happened to be an anxious buyer, and so "spoil the market" for the broker. With the result that the broker, instead of buying Milwaukee at $147\frac{5}{8}$, as he might originally have done, had he dealt straightaway instead of challenging at $147\frac{1}{2}$, might find himself ultimately compelled to pay $147\frac{3}{4}$ or even more for his stock. Beyond this temporary disaster, which was the result of "challenging," a broker who habitually challenges comes to be shunned by the generality of jobbers, who quaintly term him a "knifing" broker, or a broker not worth dealing with, and in times of panic the "knifing" broker may find himself placed in an awkward position, owing to the dealers viewing him with an unfriendly eye. While a broker would be

wrong to cultivate the goodwill of jobbers by sacrificing his client's interests, yet the broker must remember that the jobber does discharge a useful and responsible duty in providing a free market, without which broker and client would be grievously inconvenienced. A broker's first duty is to his client, but he is certainly doing his clients a disservice when his methods of dealing are such that jobbers feel any reluctance in "taking him on."

Name and Name-Day.—See Account.

Obligations or Obs.—The French name for bonds. Sometimes used in this country in connection with certain Foreign securities.

Official Assignees.—Two members appointed annually by the Committee to look after, take charge of, and administer the estates of defaulters.

Official List.—Formerly termed Wetenhall's, was originally issued semi-privately by that gentleman, now issued officially by the Committee, giving the closing prices and the markings of "business done" each day.

Options are a method of speculating, with a limit as to the amount of a potential loss, while no limit is set to the profit the option-holder may make. An operator gives a certain fixed sum payable in any case, for the right to "put" or to "call" certain stocks or shares at an agreed price on an agreed date. Options for the account, or options which mature at the end of a succeeding account, expire at 2.45 p.m. on the Contango Day, and automatically close themselves according to the market price at that moment.

Outside Broker.—See Broker.

Oversold Account.—Similar to “Bear” Account.

Paid-up Shares.—Shares with no further liability.

Par.—A security is said to stand at par when its market price is the same as its face value.

Passing a Name.—See Account.

Pay Day.—See Account.

Plunger.—An operator who deals recklessly.

Power of Attorney.—See Attorney.

Preference Bonds, Shares, or Stock. — Are securities which enjoy prior rights over the revenue or assets of a nation or company.

Premium.—A security is said to stand at a premium when its market price stands either above its face value, or above the amount paid up thereon.

Put.—A “Put” Option entitles the option-holder to sell stock to the taker of option-money at a fixed price on a given date.

Put and Call is a double option which entitles the option-holder either to sell stock to the taker of option-money, or to buy stock from him at a fixed price on a given date as the option-holder may elect to do.

“**Quoted—**” is the term applied to such stocks as are included in the Official List.

Rates is an abbreviation for Rates of Continuation. See Contango and Backwardation.

Registered Bonds.—Bonds registered in owner's name, in contradistinction to “Bearer” Bonds.

Registered Shares.—Shares registered in the holder's name. Many companies, notably the American Railways, take powers to issue Warrants to bearer in lieu of registration. These bearer shares are issued largely with a view to facilitating investment on the part of residents in distant countries.

Registered Stock.—Is stock whose owner is registered in the books of the company, Colony, or country by which it was issued.

Registration Fee is charged by public companies and others for completing the transfer of stock in accordance with the terms of a transfer deed. The usual fee is 2s. 6d. per deed.

Rig.—To rig a certain security or group of securities is to artificially inflate prices above intrinsic merits.

Ring.—A combination of speculators who agree to operate in concert with each other in specified securities.

Runner.—A clerk in a stockbroker's office who does business for clients of his own through the medium of the firm which employs him. Runners are also termed "half-commission men," from the fact that their firms allow them one-half of the commission earned on all business which they introduce.

Sag.—A gradual falling away of a market from absence of business.

Scrip.—A provisional document issued against the payment of subscriptions and calls in a new issue of stock or shares. Scrip is usually endorsed with receipt forms, whereon the payment of "calls" is

acknowledged as they fall due. When the capital is all called up, scrip is exchanged for Bonds or Shares.

Sellers under.—The reverse of “buyers over,” which see.

Selling-out.—If the seller of Registered Shares has not received a “name” by the morning of the “Pay Day,” he is entitled to sell out the shares for cash by auction per the official broker. Any loss arising from such sale and the official broker’s charges in connection therewith fall upon the person whose neglect to pass the necessary name occasioned the delay.

Settlement.—See Account.

Settling Day.—See Account.

Shake Out.—A temporary reaction in the upward movement of a rising market; such reactions have the effect of shaking out the weak “bulls” whose speculative commitments are beyond their financial strength.

Shares.—The capital or a portion of the capital of some public companies is issued in the shape of indivisible sections called shares. Shares are of various kinds—Founders’, Preference, Cumulative Preference, Vendors’, and Ordinary.

Founders’ shares are apportioned generally to those who pay the promotion expenses. Such shares are usually entitled to a large proportion of the profits after a stipulated percentage has been paid on the Ordinary.

Preference shares have the right to a certain percentage as dividend before the Ordinary stock participate in the profit earned.

Cumulative Preference shares are entitled to receive all overdue dividends to date before the Ordinary stock benefits by any dividend-distribution.

Vendors' shares are those allotted as fully paid in full or part consideration for the property purchased.

Ordinary shares generally take all surplus dividend and benefits after the preference, subject to the claims of the Founders.

Share Certificate.—The document issued by a company to its shareholders as evidence of title to their shares.

Short of Stock.—Same as a "bear," which see.

Shut for Dividend.—When the share registers of a company are closed against transfers for the purpose of making out dividend warrants in favour of shareholders upon the register, its books are said to be shut or closed for dividends. Due notice of such closing is given to the shareholders by post and advertisement.

Single Options.—See Options.

Slump.—A sudden drop in prices.

Special Settlement.—A special date appointed by the Committee for the primary settlement in a new issue. As a matter of convenience, it is the Committee's custom to fix such dates for special settlements as shall not clash with the ordinary account. Stocks are only admitted to the privilege of a special settlement when their prospectuses and the method of allotment of stock comply with the Committee's requirements.

Special Transfers.—See Transfers.

Stag.—A speculator who applies for a new issue when it is quoted at a premium, in the hope of obtaining an allotment and securing the premium by an immediate sale of his allotment.

Stamps.—The following is the scale of ad valorem stamps on Transfers:—

Consideration not exceeding	Amount.	Consideration not exceeding	Amount.	Consideration not exceeding	Amount.
£	£ s. d.	£	£ s. d.	£	£ s. d.
5	0 0 6	75	0 7 6	200	1 0 0
10	0 1 0	100	0 10 0	225	1 2 6
15	0 1 6	125	0 12 6	250	1 5 0
20	0 2 0	150	0 15 0	275	1 7 6
25	0 2 6	175	0 17 6	300	1 10 0
50	0 5 0				

For every additional £50 of consideration, or part thereof, the stamp duty is 5s.

Stock Receipt.—A printed form passed by the seller of Consols and of such other stocks of which the Transfer Books are kept by the Bank of England, to the buyer when the transfer has been made in the Bank's books; annexed is a copy.

£2 10s. PER CENT. CONSOLIDATED STOCK.

<i>Transfer Days—</i>	Received this	day of	190 of	as The proprietors, to protect themselves from fraud, are recommended to accept by themselves or their attorneys all transfers made to them.
Monday,	hereinafter called the said transferee			
Tuesday,	the sum of			
Wednesday,	being the consideration for			
Thursday,	Interest or share in the capital of the Two Pounds Ten Shillings per centum Consolidated Stock, forming part of The National Debt, transferable at the Bank of England, and all property and interest in and right to the same, and the dividends thereon, by this day transferred to the said transferee			
Friday.				£ s. d.
<i>Holidays excepted.</i>		<i>Witness</i>	<i>Hand</i>	
(3026)	<i>Witness</i>			

Should it be desired that the dividends be paid in some way other than by post to the first, or sole stockholder—which is done without application—the necessary instructions must be lodged at once at the Bank.

Fresh instructions are not required upon an alteration in the amount of an existing account.

NOTICE TO HOLDERS OF £2 10s. % CONSOLIDATED STOCK.

(*Redeemable by Parliament on, or after, 5th April, 1923.*)

Dividends are due and payable on and after the 5th January, 5th April, 5th July, and 5th October (unless any of these days fall on a Sunday, or Bank Holiday, in which case they will be payable on the business day next following), and will be paid in one of the following modes :—

- (a) By transmission of the warrants by post—

Without Application—To sole or first stockholders in the absence of any instructions to the contrary. (Sole stockholder includes sole surviving stockholder, sole executor or administrator, and sole surviving executor or administrator. First stockholder includes the first executor.)

Upon Application—To any stockholder, executor or administrator, other than the sole or first stockholder, executor or administrator, or to any person, firm, or company, upon the written request, in the prescribed form, of all the stockholders, executors or administrators.

- (b) Dividends will be paid to any stockholder, executor or administrator, personally attending at the Bank, on his written request in the case of a sole account, or on the written request of all the stockholders, executors or administrators, in the case of a joint account. The request in either case must be in the prescribed form.

Forms of postal request can be obtained at the Bank of England, at any of their branches, or at any money-order office throughout the United Kingdom.

Postal dividend warrants will be crossed “& Co.” and must therefore be presented for payment through a banker. The bank cannot undertake to cross a warrant payable to a banker with the account to which the dividend is to be placed. The stockholder must himself instruct the banker.

Persons who receive warrants by post should give notice to the Bank if they are *not* received on the day on which they ought to be delivered ; but need not acknowledge those that arrive in due course.

Forms of request, for the receipt of dividends on personal attendance, can be obtained on application at the Dividend Office, Bank of England.

Under the provisions of the National Debt Acts, stock and dividends unclaimed for ten years are transferred to the Commissioners for the reduction of the National Debt, but may be reclaimed by the persons entitled thereto.

Communications relative to £2 10s. per cent. consolidated stock should be addressed, postage prepaid, “The Chief Accountant,” Bank of England, London, E.C.

Stock certificates to bearer, of the denominations of £100, £200, £500, and £1000, with coupons for the quarterly dividends attached, may be obtained in exchange for inscribed stock.

This ticket is put forward by _____

Stockbroker.

CONSOLS.

No. _____

Bank of England, the day of 190
From

£ _____ £2 10s. per cent. Consolidated Stock.
To

(3027)

Examined by Dr. fol. _____ Cr. fol. _____ Transfer book
 Posted by Posted by

Taking a View.—By a curious Stock Exchange perversion of language, “Taking a view” has come to mean not only forming an opinion as to the future movements of a market, but also acting upon that opinion by making either a speculative purchase or a speculative sale of the stock or stocks “viewed.”

Take-in Stock.—See Account.

Talon.—The portion of a coupon sheet, the produc-

tion of which entitles a bondholder to receive from the agents of a loan a fresh sheet of coupons to replace a previous coupon-sheet, which has been exhausted by the coupons therein being cut off and presented for payment at maturity.

Tape.—The term applied to the records of prices and their fluctuations, as issued by the Exchange Telegraph Company. It must be understood that these records are in no sense official, and that at best they are but a description of markets gathered by the employees of a limited company, who have no actual knowledge of markets gained from the practical experience of dealing. Being but the unskilled view of market complications as they appear to unskilled men, it is in no way surprising to find that at times the "Tape" falls into errors, more or less serious. It is a pity that the Committee does not take the "Tape" under its own direct control, for as at present constituted it is a perpetual cause of bickering between broker and client, and it causes grave doubts to arise in the minds of the outside public as to the *bona fides* of Stock Exchange transactions. By their agreement with the Committee, the Exchange Telegraph Company is prohibited from supplying "Tape" prices to others than members of the Stock Exchange, Bankers, and Newspapers.

Ticket.—See Account. Appended is a form of "Name" or "Ticket," which is issued by the taker-up of stock, or his broker, to the dealer from whom the stock was purchased. The dealer in his turn passes on the ticket to his seller, until it reaches the actual deliverer, who makes out the transfer in accordance

with the details on the ticket, and delivers the stock to the paying broker.

No. _____

Consideration £

Stamp

_____ *Name and Amount of Security @* _____

To _____ *The Buyer's Name.*

of _____ *His Address and Description.*

Given to _____ *The Jobber's Name.*

Date 190

The Paying Broker's Name and his Office Address.

Ticket Day.—See Account.

Transfer Book.—For the transfer of Inscribed Stocks at the Bank of England. The buyer and seller sign their names in the Bank's register before the transfer of the stock to the new holder is complete.

Transfer Deed.—May be of the common or ordinary form obtainable at any City stationer's, or of the special form used by individual banks and kindred companies. The ordinary form is appended below, and must bear an ad valorem stamp before becoming negotiable—

J

in consideration of the sum of

[See NOTE.

paid by

hereinafter called the said Transferee ,

Do hereby bargain, sell, assign and transfer to
the said Transferee :—

of and in the undertaking called the

To Hold unto the said Transferee , Executors, Adminis-
trators, and Assigns, subject to the several conditions on which
held the same immediately before the execution hereof
and the said Transferee , do hereby agree to accept and take
the said , subject to the conditions aforesaid

As Witness our Hands and Seals, this day o
in the Year of our Lord One Thousand Nin

Hundred and

Signed, sealed, and delivered by the
above named

*Witness's { in the presence of
Signature*
Address
Occupation

Seal.

Stock forwarded to the Company's Office by

Coupon for £

Signed, sealed, and delivered by the
above named

*Witness's { in the presence of
Signature*
Address
Occupation

Seal.

Signed, sealed, and delivered by the
above named

*Witness's { in the presence of
Signature*
Address
Occupation

Seal.

Signed, sealed, and delivered by the
above named

*Witness's { in the presence of
Signature*
Address
Occupation

Seal.

Note.—The consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer; the Stamp Act requires that in such cases the consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the ad valorem Duty; the following is the Clause in question:—

“Where a person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other person, and the Property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with ad valorem Duty in respect of the consideration moving from the Sub-purchaser.”

[54 & 55 Vict. cap. 39 (1891), Section 58, Sub-section 4.]

* When a Transfer is executed out of Great Britain, it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other Person holding a public position—as most Companies refuse to recognise Signatures not so attested. When a Witness is a Female, she must state whether she is a Spinster, Wife, or Widow; and if a Wife, she must give her husband's Name, Address and Quality, Profession or Occupation. The Date must be inserted in Words, and not in Figures.

Transferee.—The buyer mentioned in the deed.

Transferor.—The seller mentioned in the deed.

Unauthorised Clerks does not, as might be expected, mean all the clerks of a member of the Stock Exchange who are not authorised to deal on their employer's behalf; but only such clerks as are admitted to the "House" to attend to the detail work of their employer's business, without, however, having power to transact business on their employer's account. See Authorised Clerk.

Vendors' Shares.—See Shares.

Waiter.—The doorkeepers to the Stock Exchange.

NICKNAMES BY WHICH SOME OF THE MOST FAMILIAR STOCKS ARE KNOWN, COLLOQUIALLY AND TELEGRAPHICALLY.

Anglos . . .	Anglo-American Telegraph Company Ordinary.
Anglo A . . .	Do. do. do. Deferred.
Atch . . .	Atchison, Topeka and Santa Fé Railroad Common.
Atchink . . .	Do. do. do. Income Bonds.
Bags . . .	Buenos Ayres Great Southern Railway Ordinary.
Barneys . . .	Barnato Consolidated Mines.
Bays . . .	Hudson's Bay Shares.
Berthas or Brighton A	} London, Brighton and South Coast Railway Deferred.
Berwicks . . .	
Bex	North-Eastern Railway Consols.
British . . .	Bechuanaland Exploration Shares.
Brums . . .	North British Railway Ordinary.
	London and North-Western Railway Ordinary.

Caley . . .	Caledonian Railway Ordinary.
Canadas . . .	Canadian Pacific Railway Shares, sometimes termed "Canpacs"—the latter a dangerous abbreviation, liable to telegraphic confusion with "Cenpacs."
Cenpacs . . .	Central Pacific Railway Common.
Chartered . . .	British South Africa Company Shares.
Chats . . .	London, Chatham and Dover Railway Ordinary.
Chat. Pref. . .	Do. do. do. Preference.
Coras . . .	Caledonian Railway Deferred.
Curs . . .	Central Uruguay of Monte Video Railway Ordinary.
Districts . . .	Metropolitan District Railway Ordinary Stock.
Doras or Dover A } . . .	South-Eastern Railway Deferred.
Easterns . . .	Great Eastern Railway Ordinary.
Gips . . .	Great Indian Peninsula Railway.
Goldfields . . .	Consolidated Goldfields of South Africa.
Goschens . . .	2 $\frac{3}{4}$ per cent. Consols.
Haddocks . . .	Great North of Scotland Railway Ordinary.
Johnnies . . .	Johannesburg Consolidated Investment Company's Shares.
Khakis . . .	The South African War Loan.
Leeds . . .	Lancashire and Yorkshire Railway Ordinary.
Mails . . .	Mexican Railway Ordinary.
Middies . . .	Midland Railway Ordinary.
Milks . . .	Chicago, Milwaukee and St. Paul Railroad Common.
Mists . . .	Mexican Railway First Preference.
Noras or York A } . . .	Great Northern Railway Deferred.
Oceans . . .	Oceana Consolidated Company's Shares.
Penns . . .	Pennsylvania Railroad Common.
Potts . . .	North Staffordshire Railway Ordinary.
Rosies . . .	Buenos Ayres and Rosario Railway Ordinary.
Soups . . .	Southern Pacific Railroad Common.
Souths . . .	London and South-Western Railway Ordinary.

Sheffs	.	.	.	Manchester and Sheffield Railway Ordinary.
Sheff A	}	.	.	
or	}	.	.	
Saras	}	.	.	
				Do. do. do. Deferred.
Slops	.	.	.	Allsopp's Brewery Ordinary.
Terrors	.	.	.	Northern Territories Goldfields of Australia.
Wabbons	.	.	.	Wabash Railroad Debentures.
Wags	.	.	.	West Australian Goldfields.
Westerns	.	.	.	Great Western Railway Ordinary.
Yorks	.	.	.	Great Northern Railway Ordinary.

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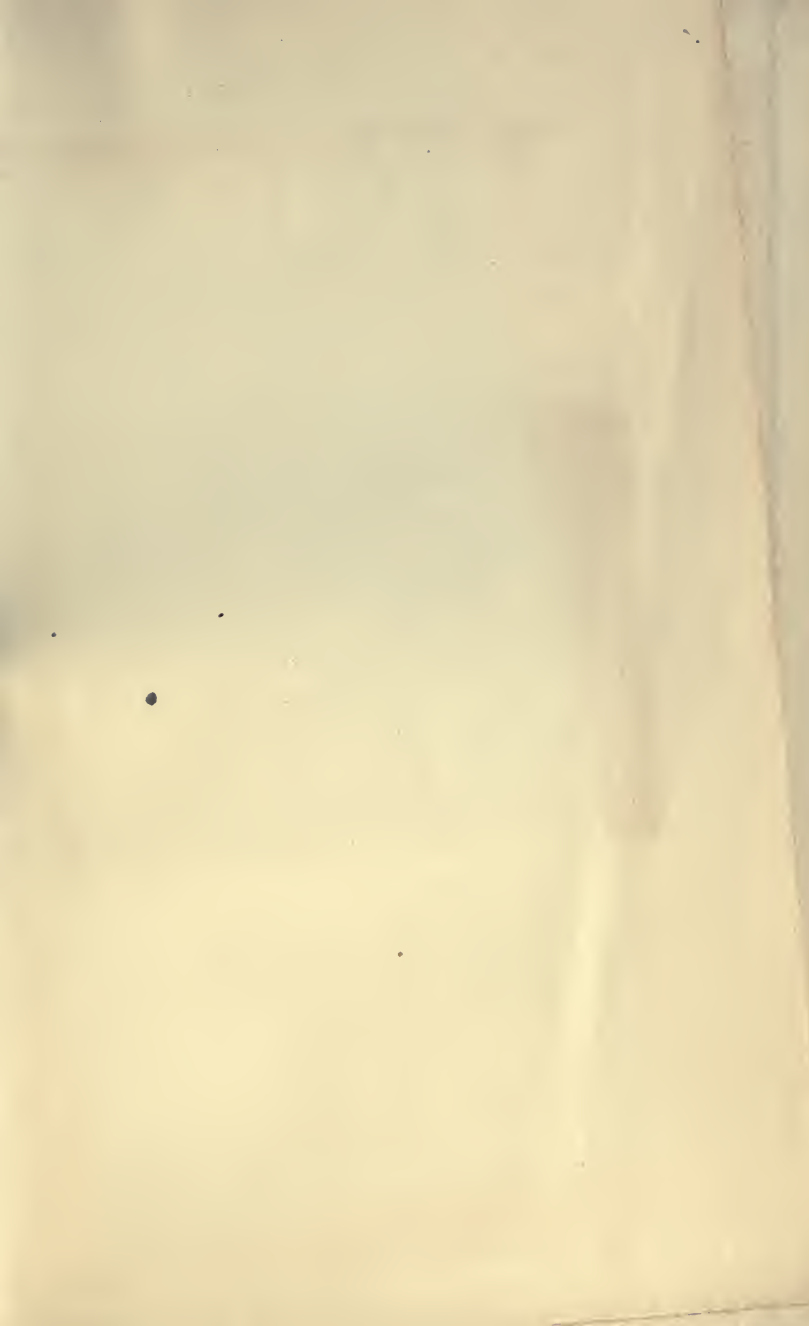
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